A dialogue on trade and development in South Asia

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TRADE insight

Supply Side Constraints in South Asia

Trade in Services | Liberalisation and Sustainable Growth | Trade and Gender

Trade Insight
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editors' note

Supply side matters

AS a pledge to a new era of friendship and cooperation between India and Pakistan, the leaders of the two largest South Asian countries met in New Delhi last month making the much awaited 'cricket diplomacy' a reality. Earlier on 7 April, India and Pakistan started bus service from both sides of Kashmir, adding a milestone to the reciprocal confidence building measures. The historic meet between Prime Minister Dr Manmohan Singh of India and President Pervez Musharraf of Pakistan has not only generated a renewed hope for peace and reconciliation but is also being considered as a precedent for cooperation in South Asia on various areas, including trade.

A majority of the stakeholders in South Asia are coming to grips with the importance of free flow of goods, services, capital, ideas and people. They tend to converge on the idea that it is the welfare enhancing property of their freer flows that countries in the region should try to harness. However, it does not mean that trade regimes are free from distortions and the losses they could inflict on the poor, marginalised and vulnerable people and their communities are trivial. Given this reality, various regional and multilateral initiatives that help promote freer trade, whether through South Asian Free Trade Area (SAFTA) or the World Trade Organisation (WTO), should put development at the centre stage of trade negotiations.

Trade agreements can contribute to providing market access opportunities for the South Asian countries. However, even genuine market access opportunities are not going to help relatively poorer countries if they face supply side constraints to convert the market access potentials into meaningful business opportunities. Therefore, this issue should receive as much attention as the market access issue, in the international and regional trade policy discourse, failing which the focus of trade negotiations is bound to be lopsided.

Since investment requirements for the creation or upgrading of infrastructure facilities, human resources, research and development, customs administration etc., are enormous, it is beyond the capacity of resource strapped countries to meet them individually. Therefore, there is a need for instituting targeted technical assistance programmes, moving beyond rhetoric. If such programmes focus only on the software (such as training of officials, conducting studies and organising study tours) and not on the hardware (building and strengthening of infrastructure), they are not going to lead to desired outcomes. Therefore, the multilateral and regional efforts geared towards realising the potential of trade as a vehicle for economic development and poverty alleviation are urgently required.

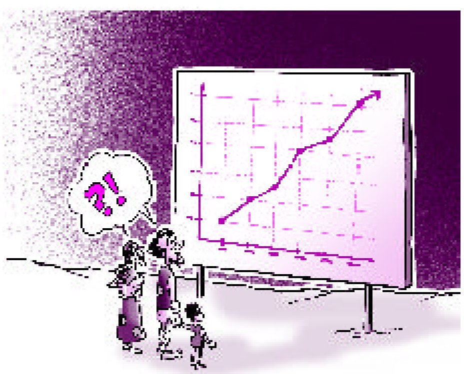
However, there are other supply side constraints such as macroeconomic instability, malgovernance and low level of human development, which can be overcome only through a clear-cut domestic reform agenda. Therefore, countries at a lower level of economic development should initiate the reform measures autonomously without further delay. ■

Contents

Joint Efforts to Address Supply Side Constraints in South Asia

Unless South Asian countries collaborate to address their supply side constraints, gains from market access opportunities will be limited, at best.

COVER FEATURE 22



Liberalisation and Sustainable Growth

Will liberalisation in South Asia ever lead to sustainable growth without tackling poverty and inequality?

ECONOMIC FOCUS 16

Trade and Gender: Evidence from South Asia

Do women from South Asian countries have any opportunity to influence the future trade agenda and seek developmental gains?

GENDER PERSPECTIVE 31

READERS' FORUM 4

TRADE WINDS 5

VIEWPOINT 8
- South Asia and trade in services
- SMEs in the WTO era

REGIONAL FOCUS 12
- Why should trade await a final settlement?
- Regional integration in South Asia

MDGs FOCUS 18
Interfacing the WTO with MDGs

UNDERSTANDING WTO 20
Anti-dumping: A case for review under the DDA

TRADE STANDARDS 26
Distorted rationales and power plays

BOOK REVIEW 28
Intellectual property and development

TRADE PREFERENCE 29
Sense and nonsense of rules of origin

TRADE CURRENT 34
- Trade justice
- Unofficial negotiations: Unfair deals, unjust decisions

NETWORK NEWS 37

SAWTEE NETWORK

BANGLADESH
1. Associates for Development Initiatives (ADI), Dhaka
2. Bangladesh Environmental Lawyers Association (BELA), Dhaka

INDIA
1. Citizen Consumer & Civil Action Group (CAG), Chennai
2. Consumer Unity & Trust Society (CUTS), Jaipur
3. Development Research & Action Group (DRAG), New Delhi
4. Federation of Consumer Organisation of Tamilnadu & Pondichery (FEDCOT), Thanjavur

NEPAL
1. Society for Legal & Environmental Analysis & Development Research (LEADERS), Kathmandu
2. Forum for Protection of Public Interest (Pro Public), Kathmandu

PAKISTAN
1. Journalists for Democracy & Human Rights (JDHR), Islamabad
2. Sustainable Development Policy Institute (SDPI), Islamabad

SRI LANKA
1. Law & Society Trust (LST), Colombo

Insightful

I congratulate you for bringing out *Trade Insight*, which covers a wide range of issues and offers insightful (true to its name) analyses of and short comments on topical issues.

Dr Syed Nawab Haider Naqvi, Distinguished National Professor of Economics, Federal Urdu University of Art, Science and Technology, Islamabad

An excellent publication

An excellent piece of publication. Congratulations! Content-wise, this is fine. However, I found many pictures of foreign origin and in some cases, those photos were not relevant. Identifying the readers you target for the publication would further guide the topic selection.

Dr Ananya Raihan, Research Fellow, Centre for Policy Dialogue, Dhaka

Heartiest congratulations for the excellent inaugural issue of *Trade Insight*. It is very rich (relevant, substantive, diverse and up-to-date) in content and very attractive in presentation (layout, font selection, colour combination and images). I would like to suggest you to alert friends and colleagues around the region to send event news, which fall within the scope of the magazine. Now having aroused the expectation, you have to service the incremental appetite.

Dr Debapriya Bhattacharya, Visiting Fellow, Center for Global Development, Washington D.C.

Congratulations on your new magazine *Trade Insight*. The comprehensive coverage of trade issues in a magazine format is bound to prove a great success.

Tony Hill, Coordinator, UN Non-Governmental Service, Geneva

Congrats on bringing out such an excellent and impressive magazine. Now do not change it any more. Let this be the final and it will find its own stability in due course like our South Asia Economic Journal. Thanks for reviewing my book on Sri Lanka's RMG sector.

Dr Saman Kelegama, Executive Director, Institute of Policy Studies, Colombo

Please accept my heartiest congratulations for *Trade Insight*. I hope this endeavour will not only be a step forward in fulfilling your objective but also be helpful in building the capacity of South Asian stakeholders.

Dr Ashok Bapna, Honorary Visiting Professor, HCM Rajasthan State Institute of Public Administration, Jaipur

Recommendable

I found *Trade Insight* good and full of South Asia's perspective on the WTO. I am recommending subscription to our library.

T K Bhaumik, Senior Adviser – Policy, Confederation of Indian Industry, New Delhi

Thank you for sending *Trade Insight*. I have forwarded it to the librarian with the recommendation to subscribe it as an institution.

Dipankar Sengupta, Centre de Sciences Humaines, New Delhi

Commendable effort

The cover photograph of *Trade Insight* has set the tone of the new magazine. By displaying Hong Kong, where the WTO Ministerial is due to be held, the editor draws attention to the future of the trade negotiations. This forward-looking attitude is reflected in the articles. Moreover, they are reader friendly. That you are broadening the base of the magazine is evident from your publication of the article "Conflict and economic growth." My only reservation is that it draws upon a three year old work (P. Collier's 2002: The Economic Agenda of Civil Wars). Surely there are more recent sociological studies. Yet, a very commendable effort!

Dr Gautam Vohra, Development Research and Action Group, New Delhi

Please accept our sincere appreciation for the commendable task of bringing out such a prestigious magazine. SAWTEE has done a great job over the past few years, both in the area of communication/information advocacy, and documentation. Quality remains your hallmark.

Dr Syed Wajid H.Pirzada, President, Roots Pakistan, a grassroot development action, Rawalpindi

Look forward to reading

Thank you so much for the copy of *Trade Insight*. In addition to including it in BRIDGES Weekly, I have circulated it within ICTSD and also the International Institute for Sustainable Development. It looks to be an excellent and truly impressive publication that I look forward to reading from cover to cover.

Sarah Mohan, Junior Programme Officer, International Centre for Trade and Sustainable Development, Geneva

Many thanks for your publication. Please send two or three copies which I will distribute to other colleagues.

Ana María Alvarez, Economic Affairs Officer, Competition and Consumer Policies, UNCTAD, Geneva

Congratulations for your new magazine *Trade Insight*. It has in-depth information on global trade and economy. I wish for its continuity and progress on every aspect.

Tirtha Koirala, Chief, News & Current Affairs, Kantipur Television, Kathmandu

Thanks for the copy of *Trade Insight*. It is very good in terms of content and coverage. The language is also elegant without jargons and verbosity. Keep it up! I would be delighted to receive your magazine regularly.

S. Chakravarty, Former Member, Monopoly and Restrictive Trade Practices Commission, Hyderabad

I have received a copy of the first issue of *Trade Insight* and am waiting for your next issue.

Rabindra Basi, Nepal Law Campus, Kathmandu

Your efforts to disseminate pertinent information on trade, economic and environemntal issues are praiseworthy. I regard the beginning of publication of *Trade Insight* as an effort by SAWTEE to make its information dissemination more effective and create a forum for a wide debate on various trade related issues. Presented in a news magazine format, it looks more professional and reader-friendly than your earlier publications. I hope it will be published more frequently.

Madan Lamsal, Editor, New Business Age, Kathmandu

G-20 ministers meet on agriculture

TRADE ministers from the G-20 – a group of developing countries formed in the lead-up to the September 2003 Cancún Ministerial in order to counterbalance the dominant role played by developed countries in the agricultural negotiations – met in New Delhi, India from 18-19 March. Following two days of discussions, which were also attended by representatives from developing countries not part of the G-20, the group adopted the 'New Delhi Declaration' that calls for the elimination of export subsidies within five years at the latest. The meeting also welcomed Uruguay as a new member of the G-20.

The New Delhi Declaration emphasises the development dimension of the agricultural negotiations, noting "our common goal is to put an end to trade-distorting policies in agriculture maintained by developed countries, thus contributing to growth and development of developing countries." It also points to the importance of the current stage of negotiations leading up to the Hong Kong Ministerial in December 2005, where members are aiming to agree on agricultural modalities (such as percentages for tariff and subsidy cuts, reduction formulae, criteria for domestic support, schedules, deadlines, and transition periods). The Declaration addresses issues such as domestic support, export competition, market access and developing country concerns in the World Trade Organisation (WTO).

The G-20 accounts for 65 percent of the world's population, 72 percent of its farmers and 22 percent of agricultural output. Argentina, Bolivia, Brazil, Chile, China, Cuba, Egypt, India, Indonesia, Mexico, Nigeria, Pakistan, Paraguay, Philippines, South Africa, Thailand, Tanzania, Uruguay, Venezuela and Zimbabwe are its members *(BWTND, 21.03.05)*. ■

WHO concerns over Indian law on generic drugs

THE World Health Organisation (WHO) has voiced its concern over a new law in India banning the copying of patented medicines, which, it fears, could hit the provision of cheaper generic drugs to poor countries.

WHO officials insist that "the country uses to the maximum the flexibility offered" by an August 2003 agreement by members of the World Trade Organisation (WTO) dealing with the export of generic medicines to poor countries hit by health epidemics such as AIDS.

The Indian parliament's upper house approved a controversial drug patents bill on 23 March, which, critics warn could deprive millions of poor people of low-cost, life-saving drugs.

The approval paves the way for the bill, which prohibits domestic firms from copying low-cost generic versions of patented drugs, to become law. The Indian law aims to bring the country into conformity with the WTO accord *(AFP, 23.03.05)*. ■

Who heads what ?

Dr Supachai Panitchpakdi has been proposed by United Nations Secretary General Kofi Annan to lead the United Nations Conference on Trade and Development (UNCTAD) after the expiry of his term of office as World Trade Organisation (WTO) Director General (DG) on 31 August 2005. He will succeed DG of UNCTAD, Rubens Ricupero *(WTO, 01.03.05)*. ■

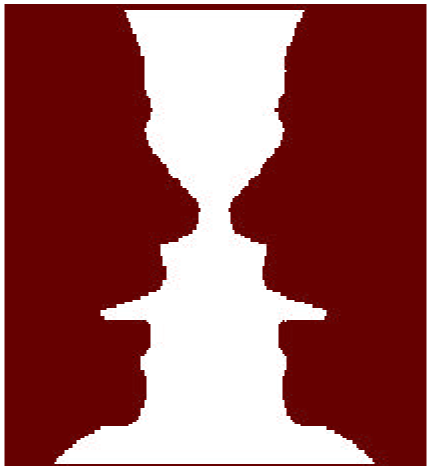
United States (US) President George W. Bush announced on 17 March the appointment of Rob Portman to be the next United States Trade Representative, pending Senate approval. The 49-year-old Republican representative in the lower house of the US Congress, a former trade lawyer, who is a close ally of the Bush Administration, would succeed Robert Zoellick, who was appointed Deputy Secretary of State on 16 February *(BWTND, 17.03.05; WTO, 17.03.05)*. ■

The Executive Directors of the World Bank unanimously selected Mr Paul Wolfowitz, effective 1 June 2005, to succeed Mr James Wolfensohn as President of the World Bank, when the latter retires on 31 May 2005. As an international civil servant of a multilateral organisation, the President of the World Bank is ex-officio President of the International Development Association and Chairperson of the Board of Directors of the International Finance Corporation, the Multilateral Investment Guarantee Agency, and the Administrative Council of the International Centre for Settlement of Investment Disputes. Mr Wolfowitz, a United States (US) national, currently serves as US Deputy Secretary of Defense *(TE, 31.03.05; World Bank, 01.04.05)*. ■

WTO mini-ministerial
NORTH-SOUTH TRADE disputes persist

A deep North-South rift over farm subsidies and market access persisted in Ukunda, Kenya during the World Trade Organisation (WTO) 'mini-ministerial' held from 2-4 March 2005. Talks aimed at boosting chances for reaching a global trade liberalisation pact in 2006 ended in uncertainty. With a landmark WTO ruling against United States (US) cotton subsidies highlighting the split, ministers and senior officials from 32 WTO members and the European Union (EU) failed to bridge the differences but insisted they had given political momentum to the so-called 'Doha Round' of trade talks.

Although various deadlines were agreed upon, there was not much movement on real substance. African, Caribbean and Pacific (ACP) nations are clamouring for an end to rich countries' farm subsidies, as



such support have ruined their agricultural sectors. Rich countries have refused to budge until tariffs and other trade barriers by developing nations, particularly on services, are lifted.

The stalemate derailed the Cancún Ministerial and has festered despite a July 2004 breakthrough in getting the talks restarted.

Developing nations, though, welcomed the release of the WTO decision on 4 March in favour of Brazil that compels the US to halt hundreds of millions of dollars in subsidies paid to US cotton farmers. Brazil has called for speedy US compliance as did West African cotton producers such as Benin, Chad, Mali and Senegal, which supported Brazil's original complaint and an initial WTO ruling against the US in 2004. Rwanda, which heads the African WTO bloc, has warned of a repeat of the Cancún collapse in Hong Kong unless farm subsidies are ended and has said the decision proved that agriculture must take full precedence in the negotiations. However, US officials demurred, saying the implications of the ruling were unclear *(AFP quoted in IBN, 05.03.05).* ■

BLAIR COMMISSION for Africa calls for fairer trade

THE Commission for Africa established in 2004 by British Prime Minister Tony Blair issued its report on 11 March, calling for 'more and fairer trade' for the continent.

The 450-page study highlights the challenges facing Africa and outlines recommendations on how they can be addressed by both Africa and the developed world. The report particularly focuses on strategies to combat poverty, which it refers to as 'the greatest tragedy of our time'.

In this respect, the report identifies the following key areas for action: governance and capacity building; the need for peace and security on the continent; the need to invest in people through education and adequate healthcare; more trade and fairer trade, and an additional US$ 25 billion per year in aid to be implemented by 2010.

It specifies that action on some of these issues will need to be taken by African governments alone; on others, they will have to work in coordination with donor countries.

On trade, the report points out that "Africa will fail to achieve sustainable growth and poverty reduction, and fail to meet the Millennium Development Goals, unless it increases its diminishing share of world trade."

The report outlines three recommendations for achieving more and fairer trade for Africa.

Firstly, the report recommends increasing Africa's capacity to trade through investments in infrastructure and the creation of an enabling climate for the private sector, focusing on trade facilitation and enhanced regional integration. Secondly, the report calls on developed countries to address non-tariff trade barriers. For instance, it calls on developed countries to ensure that standards are not unnecessarily stringent, and to help Africa in meeting these standards. It also urges rich countries to explore standard harmonisation so that African exporters are better able to identify and meet such requirements.

Finally, the report urges the developed world to provide transitional support to African countries to help them deal with negative effects resulting from the removal of global trade barriers. According to the Commission, this requires making current trade preference schemes work more effectively by expanding them to cover all low-income countries in Sub-Saharan Africa, and ensuring simpler rules of origin requirements *(BWTND, 14.03.05).* ■

US and EU reaction to Chinese TEXTILE exports surge

A SURGE in Chinese textile and clothing (T&C) imports since the abolition of trade quotas at the end of 2004 has prompted the United States (US) to initiate a process that could potentially lead to the imposition of quantitative import restrictions on certain Chinese products. The European Union (EU) has also unveiled a set of guidelines outlining the circumstances under which it will consider limiting imports.

T&C producers in several countries have been asking their governments to invoke the 'China textile safeguard' established as part of the terms of China's accession to the WTO. The mechanism allows members to limit Chinese imports of T&C products to an increase of 7.5 percent above the previous year's levels if they have been found to cause market disruption. Turkey and Argentina have already invoked the safeguard.

US Commerce Department statistics released on 1 April show that Chinese T&C imports into the US were 63 percent higher in the first quarter of 2005 compared to the previous year. US Commerce Secretary Carlos Gutierrez described the investigations launched by Washington as the 'first step in a process' to determine whether the US market is being disturbed and whether China is responsible for any disruption. The products subject to review will be cotton knit shirts and blouses, cotton trousers and underwear, categories in which preliminary data for the first quarter of 2005 suggest that imports from China increased by approximately 1,250 percent, 1,500 percent and 300 percent respectively relative to the first quarter of 2004. The process will determine whether the US will decide to invoke the China special safeguard import restrictions, as US textile industry groups have been urging for several months.

Meanwhile, EU Trade Commissioner Peter Mandelson announced an 'early warning system' for Chinese T&C import levels on 6 April. According to the guidelines, the EU would allow Chinese imports of particular products to increase by 10 percent to 100 percent before triggering investigations to determine their impact in terms of disruption of trade flows and possible injury to EU industry. In parallel to these investigations, the EU would start informal discussions with China to ask it to restrain its exports. Subsequent steps would potentially include formal consultations with China at the WTO under the terms of the textile safeguard and eventually, a decision to impose defensive measures.

On the other hand, the Chinese government has declared its opposition to preliminary moves by the US and the EU that could eventually lead to the imposition of import restrictions on Chinese T&C. The Chinese Ministry of Commerce issued a statement on 7 April terming the step would "harm the confidence of Chinese industry and of the Chinese public in the international trading environment." It also warned that China would take retaliatory measures through the WTO, if necessary *(BWTND, 06.04.05 and 13.04.05).* ■

China to strike online piracy

CHINA will soon enact new regulations aimed at curbing online piracy of copyrighted material that will hold websites responsible for stolen material. The administrative measures on internet copyright protection were due by the end of April 2005. The measures are among several new initiatives announced as China comes under renewed pressure from the United States and other trading partners to curb rampant theft of copyright, trademarks and other intellectual property. It has been reported that Internet service providers whose portals are used to spread pirated information will not be held accountable *(ET, 28.04.05).*

EC's revised offer on services

ON 20 April, the European Commission presented to Member States its proposal for the European Union's (EU) revised services offer in the Doha Development Agenda negotiations. The revised services offer builds on the ambitious initial offer the EU-15 submitted in 2003 and is made on behalf of an EU of 25 Member States. In line with the July Package, World Trade Organisation members are requested to table revised services offers by May 2005 *(http://europa-eu-un.org/articles/cs/article_4609_cs.htm)*

NEWS SOURCES

AFP: Agence France Press
BWTND: Bridges Weekly Trade News Digest
ET: The Economic Times
IBN: The Independent Business News
TE: The Economist
WTO: World Trade Organisation

South Asia and Trade in Services

Where does the Commonality Exist?

If South Asia is to benefit from services liberalisation, countries must identify the issues on which they have common interest and devise their negotiation strategies accordingly.

Pranav Kumar

Services – from transport and information technology to finance, health and education – are becoming the single largest contributor in national income of many economies. Not only this, in areas such as the financial and telecommunication sectors, services provide vital input for the production of other goods and services. However, the share of services in total global trade (goods and services) is not proportionate to the sector's share in national economy. While the services sector is about 40-60 percent of gross domestic product (GDP) and employment for developing countries and 60-80 percent for developed countries, exports of services are approximately 20 percent of total world exports.

The trend in South Asia is no different. Its contribution in GDP varies from 37 percent in case of Nepal to 57 percent in Sri Lanka. The sector is second most important after agriculture in providing employment in South Asian countries. Historically, remittances from people living abroad have played an important role in almost all South Asian countries in addressing their perennial problem of balance of payment deficits. At present, the region is the second largest remittance recipient (20 percent), after Latin America and the Caribbean countries combined together.

Regarding the trading interests of South Asian countries, it would be misleading if we generalise the prevailing situation. Undoubtedly, South Asia has a strong comparative advantage in trade in commercial services, especially in exports of semi-skilled and unskilled labour. However, in reality, this strong comparative advantage is largely because of India's booming services sector. If we look at the export figure of South Asian countries in the post World Trade Organisation (WTO) era, except India and Sri Lanka, the other three South Asian countries viz., Bangladesh, Nepal and Pakistan have experienced a decline in export of commercial services.

In South Asia, the situation of India is much different from its neighbouring countries. Its emergence as one of the fastest growing economies in the world during the 1990s is attributable in significant part to the rapid growth of its services sector. During the 1990s, the Indian services sector grew at an average annual rate of 9 percent, contributing to nearly 60 percent of the overall growth rate of the economy. At the same time, India's exports of services displayed one of the fastest rates of growth in the world – over 17 percent per annum in the 1990s – and grew two and a half times faster than the domestically focused part of the services sector. The most visible growth has been quite obviously in information technology and business process outsourcing services.

In WTO parlance, the General Agreement on Trade in Services (GATS) describes the four modes of services trade – cross border (mode 1), consumption abroad (mode 2), commercial presence (mode 3), and temporary movement of natural persons (mode 4). While India sees its interest in three out of four modes, the other South Asian countries namely Pakistan, Bangladesh, Sri Lanka, and Nepal have advantage mainly under mode 4. Besides, Sri Lanka and Nepal earn significant share of their foreign exchange through tourism, which comes under mode 2.

India, which has been seeking flexibilities in mode 1 and mode 4, is also seeing its potential under mode 2. The country is fast emerging as one of the most effective healthcare destinations in the world. In 2003, an estimated 150,000 foreigners visited India for medical purposes, and the number is increasing at the rate of about 15 percent a year. A recent study by the McKinsey consulting firm estimated that India's medical tourist industry could yield as much as US$ 2.2 billion in annual revenue by 2012. Indian hospitals offer medical procedures at a fraction of the cost of the procedures in the United States (US) and elsewhere, largely because of India's lower pay scales, higher patient volumes and lower malpractice costs than in the US and European countries. A heart procedure that can cost up to US$ 200,000 in the US is available in India for less than US$ 10,000.

Under these circumstances, India can afford to take a far more aggressive position in services negotiations, which may not be possible for its neighbouring countries to follow. The question arises, where do the South Asian countries see the commonality of interests? Service supply under mode 4 is definitely one area where together they are facing a range of barriers in developed countries. These include tough visa formalities, prohibitions and quotas either explicitly or through a variety of economic needs tests, wage parity conditions, discriminatory treatment through fiscal and regulatory means, non-recognition of professional qualifications, and making entry conditional on commercial presence. In addition, the security concerns brought into sharper focus in the wake of 9/11 terrorist attacks, have further complicated the liberalisation of services trade through mode 4.

The second area where the commonality exists is least developed country (LDC) related concerns. Four out of seven South Asian countries are LDCs. All except Bhutan are member of the WTO. In September 2003, the Special Session of the Council for Trade in Services adopted modalities as mandated by Article XIX of GATS for the special treatment for LDC members in the negotiations on trade in services. These include, *inter alia*, special priority to LDCs in providing effective market access in sectors and modes of supply of export interest to them, flexibility for opening fewer sectors, liberalising fewer types of transactions, and progressively extending market access in line with their development situation. But unfortunately, there have not been much efforts on the part of developed countries to operationalise above commitments.

At present in the current Doha Round, the progress on services negotiations is lagging behind the other two pillars of trade liberalisation – agriculture and market access for industrial products. To date, only 47 (71 if the European Commission's offer is counted as representing 25 Member States) of the 148 WTO members have submitted their initial offers on services and many of them are of poor quality. In the last Special Session of the Council for Trade in Services held in February 2005, liberalisation through mode 4 was one of the main agenda but no significant breakthrough could be achieved. The US expressed its inability to table a better offer in mode 4, giving reasons of tight immigration rules following the 9/11 terrorist attacks.

But what is the way out? For South Asian countries, which see their potential under mode 4, the challenge is to get rid of highly restrictive immigration regimes. They need to constantly highlight that liberalisation of services under mode 4 would create a win-win situation, benefiting both developed and developing countries. This has also been proven by several empirical studies. It will increase global wealth, favour specialisation and a more efficient allocation of resources, foster transfer of technology, encourage innovation, and offer consumers in each country a wide variety of services at lower prices. ■

(Mr Kumar is Policy Analyst at Consumer Unity and Trust Society - Centre for International Trade, Economics & Environment, Jaipur)

For South Asian countries, which see their potential under mode 4, the challenge is to get rid of highly restrictive immigration regimes

SMEs in the WTO Era

South Asian countries should collectively argue that the international community has a responsibility to institute mechanisms to manage economic globalisation with SMEs in perspective.

Bhaskar Sharma

Irrespective of the levels of industrialisation, small and medium enterprises (SMEs) represent the backbone of industrial structure in many economies. SMEs have played a major role in promoting industrial development by providing the foundation for sustaining growth and raising incomes.

A cursory look into the contribution of SMEs in South Asian countries amply demonstrates the sector's importance. For instance, 80 percent of manufacturing establishments in Bangladesh are SMEs, accounting for 80 percent of labour force, 50 percent of manufacturing output, and 5 percent of gross domestic product (GDP). In India, they account for 95 percent of industrial units, 40 percent of industrial output, 80 percent of employment in the industrial sector, 35 percent of manufacturing value added, 40 percent of total exports and 7 percent of GDP. In Pakistan, the sector employs about 80 percent of the industrial labour force, makes up about 60 percent of the manufacturing sector and contributes around 15 percent to GDP. Over 95 percent of the industrial establishments in Nepal fall in the SME category, generating over 80 percent industrial employment.

Though the definition and scope of SMEs vary both across regions as well as countries, SMEs in South Asia comprise a wide range of plant sizes and technologies, both across and within countries, covering three broad tiers of activities. At the top, there is the modern SME sector, closely linked with large enterprises as sub-contractors. At the other extreme is the traditional SME sector, normally found in rural areas. Between these two types of SME sectors are the agro-based industries, mostly found in semi-urban areas, which utilise agricultural raw materials as major production inputs. Although the type of SMEs, on the basis of their level of modernisation, differs from country to country in South Asia, a bulk of them falls under the second and third category. Unfortunately, these two categories of SMEs are presently facing the biggest threats, particularly because of the multilateral trading system, espoused by the World Trade Organisation (WTO).

Challenges for SMEs from the WTO

The challenges to SMEs can be broadly classified under three categories.

The first category can be related to some 'contentious' issues under the WTO, viz., Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS), Agreement on the Application of Sanitary and Phytosanitary Measures (SPS) and Agreement on Technical Barriers to Trade (TBT).

TRIPS allows the patenting of ideas, expressions, innovations, creations, and technologies. This agreement can potentially inflate the price of technologies and technological inputs that are critical for upgrading the production facilities of South Asian SMEs. This threat is serious, particularly because SMEs today are in dire need of new technologies to upgrade production and productivity to match global competition. Likewise, SPS measures have become a bone of contention for agro-based SMEs. Developed countries have been imposing various non-tariff barriers (NTBs) in the pretext of protecting plant, animal and human life and safety. Since a substantial proportion of South Asian SMEs' output is agro-based, they are susceptible to market access barriers in the name of SPS measures. Nepal's natural honey and India's dairy products have already been the victims of SPS measures imposed by the European Union (EU) and the United States (US) respectively. Apart from SPS measures, 'high' technical standards set by importing countries have acted as barriers for South Asian SMEs' exports. Developed countries have, on numerous occasions, imposed various market access conditionalities that are deleterious to developing countries. The ban imposed by the EU on the import of leather goods from India citing technical standards is a case in point.

The second category has arisen as a result of the WTO-induced domestic policy changes in individual South Asian countries, which are in the process of undertaking substantial reforms in their domestic laws/policies to bring them into conformity with the WTO regime. Such trade policy changes affect SMEs substantially in terms of costs, access to capital and technology, and strategic planning. Due to limited access of SMEs, particularly the smaller ones, to information and communication, they are not even aware of the trade policy changes, let alone taking measures to mitigate threats that may arise due to them.

The third category is related to ongoing negotiations on non-agricultural market access (NAMA), a contentious issue under the WTO. Negotiations focus on comprehensive reduction or elimination of tariffs on industrial products by addressing tariff peaks, high tariffs, tariff escalation and NTBs. Of particular importance in this regard is the fact that SMEs would be subject to stiff foreign competition and confront major survival threats if tariffs on products of their interest are either substantially reduced or eliminated.

Certainly, the WTO is all about 'survival of the fittest'. There are SMEs with export potential that are likely to survive the global challenges and may graduate from small into efficient medium-sized enterprises. Such SMEs are growth-oriented with a high propensity to apply technology and training and serve specialised niche markets, competing at the international level and entering global chains of production. However, most South Asian SMEs are traditional, technologically deficient and excessively dependent on local markets and local inputs.

The challenge is then to ensure that such SMEs graduate not just from 'small' to 'medium', but also from 'national' to 'international'.

Strategies to promote SMEs

The first step towards promoting SMEs is to protect them until they are able to face global competition. This should begin at the domestic level. Each South Asian government should integrate measures aimed at SME development into its industrial and economic policies. The governments should also implement policies for facilitating access to credit and technology transfer to SMEs. While preparing such policies, the governments should take note of the fact that without consultation with SME entrepreneurs and other stakeholders, it is not possible to devise effective strategies that could help SMEs face global competition. If governments are serious about creating a dynamic SME sector, they have to do concrete domestic homework.

Secondly, efforts should be geared at making the international environment conducive for the operation of SMEs. The South Asian governments should collectively voice their concerns at the WTO against arbitrary use of NTBs. They should cooperate with other developing country groups to argue for easy market access for SME products, as well as easy access to the much-needed technology at low costs. South Asian countries should be able to effectively put up their concerns in the ongoing NAMA negotiations. They should also resist the pressure for higher tariff cuts in products of the interests to their SMEs.

Finally, the South Asian governments must collectively argue that the international community has a responsibility to institute mechanisms that manage economic globalisation with SMEs in perspective. There are some international initiatives that have been made, which South Asia can take up for reference. For example, the relevance of trade policies to SMEs has been recognised in the international forums such as the US-EU Transatlantic Business Dialogue and the Free Trade Area of the Americas. Given the fact that a huge proportion of industrial establishments in the developing world is SMEs, South Asia should ask for the institution of a specialised forum for SMEs at the WTO. ■

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The first step towards promoting SMEs is to protect them until they are able to face global competition

WHY SHOULD TRADE AWAIT a final settlement?

Cricket seems to be a far greater force uniting nations and sentiments than war. If commonality of purpose can exist on the sports field, it can also be a part of trade processes. If one can play cricket, one can also undertake trade.

Pradeep Mehta and Huma Fakhar

India and Pakistan have been at loggerheads over Kashmir, among other issues, since 1947. However, times seem to be changing. This change gathered momentum when Pakistani Prime Minister Shaukat Aziz, at the World Economic Forum (WEF) meeting in Davos, Switzerland, in January 2005, proposed to his Indian counterpart Manmohan Singh to evolve a series of confidence building measures that need not be held hostage to the resolution of Kashmir, the central dispute.

The Kashmir issue has been singularly responsible for blocking cooperation between the two countries, except where it is imperative and unavoidable. At international fora, at times, both share similar views and stands. For example at the World Trade Organisation (WTO), both are members of the developing countries' alliance — G-20 — which is trying to ensure that the Doha Development Agenda (DDA) protects the interests of poor countries. Both countries have been founder members of the WTO and its predecessor, the General Agreement on Tariffs and Trade (GATT).

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The two countries are also members of the South Asian Association for Regional Cooperation (SAARC) and its various instruments: this includes the South Asia Preferential Trade Arrangement (SAPTA), to be succeeded by the South Asian Free Trade Area (SAFTA). However, any progress on either of these protocols has been mortgaged to the Indo-Pak détente. Consequently, the entire region has suffered.

Indo-Pak economic relations have been facing the bugbear of some myths that continue to define the debate on whether the countries should or should not resolve all disputes prior to forging trade and economic relations. Thus, progress on economic cooperation between India and Pakistan has taken a backseat. In this article, we identify the major myths and proceed to demolish them.

Countries at war can play cricket but cannot trade!

Cricket seems to be a far greater force than war. If commonality of purpose can exist on the sports field, it can also be a part of trade processes. If one can play cricket, one can also undertake trade!

Do all disputes need to be resolved before economic cooperation?

Policymakers in Pakistan have so far been insisting that unless all disputes between the two countries are resolved, trade and economic cooperation will proceed on a case-by-case basis. While some change is taking place in this line of argument, the jury is still out. We need to proceed with gradual opening up on both sides: India should look into serious tariff reduction and Pakistan should give up on 'sensitive' list. A good way to begin could be a Bilateral Investment Treaty (BIT).

Disputes have never prevented the realisation of economic cooperation around the world. France and Germany had been at loggerheads for over a millennium but now both are major players in the European Union (EU), which is continuously deepening economic and political cooperation. Malaysia and Thailand too have border disputes but this has not prevented them from cooperating on the economic front through the Association of South East Asian Nations (ASEAN) Free Trade Agreement (FTA).

The deepening economic ties between India and China have also set a precedent. India and China have a border dispute but have decided to keep it on the backburner. In 2000, bilateral trade between both countries was around US$ 3 billion. Within three years, it crossed US$ 10 billion. Several estimates show that India and Pakistan can also achieve similar levels of trade if they decide to open up their borders.

Reciprocity should be followed in dispute settlement

Reciprocity may not be useful in the current environment. Time is testimony to the adverse impacts economic growth has faced in both the countries. What cannot be undertaken officially has somehow been substantiated unofficially. The market apparently knows what is right. Unofficial trade has already reached an estimated staggering US$ 2 billion. Imagine if this trade is carried out officially, reducing costs and having a trickle down effect. India has already granted Pakistan the most favoured nation status, despite pending disputes. Curtailing trade due to unsettled issues is reciprocity at its worst. One should, therefore, attempt a non-reciprocal approach to foster more trade.

India will dominate the economy of Pakistan if trade is liberated

There is concern that if Pakistan liberalises trade relations with India, the latter will dominate Pakistan's economy. Undoubtedly, India will have a trade surplus against Pakistan as it has with other neighbours, Bangladesh, Nepal and Sri Lanka. On the contrary, the FTA between Sri Lanka and India has led the two to initiate talks on Comprehensive Economic Partnership Agreement. Simple economic rationale indicates that India enjoys these surpluses because of the size of its economy and the comparative advantages it enjoys. But this does not translate into a domination of Pakistan's economy by India.

> The deepening economic ties between India and China have set a precedent. Both countries have a border dispute but have decided to keep it on the backburner. In 2000, bilateral trade between them was around US$ 3 billion. Within three years, it crossed US$ 10 billion.

If strong economies always dominated bilateral trade, then China and the United States (US) would dominate all economies with which they have a trade surplus. On the contrary, the US runs a deficit with most trading partners, which do not dominate the US economy. China has a trade surplus against the US, which exceeded US$ 68 billion in 2000. China had a trade surplus of US$ 0.8 billion in 2003 against Pakistan. This does not indicate economic subjugation. On the contrary, it indicates vibrancy and a leashed domestic demand waiting to be harnessed and catered to. Bilateral trade will help both countries. Take the case of the India-Pakistan-Iran pipeline. It will fetch Pakistan an annual income of US$ 500 million.

Trade will lead to disputes which will promote more conflict

Trade disputes take place between all trading partners, as can be seen from the history of the WTO and other dispute settlement machinery. These are resolved through legal processes. Countries do not and should not resort to violence to resolve commercial disputes. This is not something to worry about. Disputes indicate a dynamic relationship.

Will there be a peace dividend if cooperation is concretised?

There will be a huge peace dividend if trade relations are strengthened. When two countries trade with each other, people develop an interest in maintaining peace, so that the flow of goods and services is not disrupted.

Will it lead to the dissolution of other issues?

When countries are trading with each other, they tend to avoid conflicts. If there are any disputes, as is likely to happen, they use dialogue to resolve them. What has been seen in many similar situations is that countries decide to maintain the *status quo* and move on.

One should learn lessons from history. Mistakes that were made while history was being written, should not be repeated. ■

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Regional Integration in South Asia

Uncertain Future

Md. Golam Robbani

Although the title bears a whiff of pessimism, the author is by no means a pessimist. It simply echoes the harsh reality of South Asia's history of regional integration.

Despite pioneering the formation of the so-called South-South regional cooperation, South Asia has achieved little success in forming effective integration arrangements. Initiatives in the 1970s have become dormant, headway in the 1980s was plagued by slow progress and lack of cooperation in the 1990s has left the region with an uncertain future.

The first regional integration arrangement in South Asia occurred in 1963 at the initiative of the then United Nations Economic Commission for Asia and the Far East (UNECAFE, now United Nations Economic Commission for Asia and the Pacific or UNESCAP), the final outcome of which is known as the Bangkok Agreement, signed in 1975.[1] In 1985, the South Asian Association for Regional Cooperation (SAARC) was established with the main objective of promoting welfare of the region.

During the late 1990s, two other regional organisations were formed where some countries of South Asia are members. To explore economic cooperation among the countries around the Bay of Bengal, Bangladesh, India, Myanmar, Sri Lanka and Thailand Economic Cooperation (BIMSTEC) was established in 1997. With the accession of Nepal and Bhutan, it is renamed as the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation.[2]

In 1997, another regional organisation was launched in Mauritius called the Indian Ocean Rim Association for Regional Cooperation (IOR-ARC) comprising 18 countries, where Bangladesh, India and Sri Lanka are also members. This is rather a very diverse group with membership from Australia, Middle East and even from Africa.[3] Apart from SAARC, all other initiatives are either dormant or in the formative stage. The subsequent discussion will focus on SAARC only.

SAARC has not been able to accomplish anything substantial during the past two decades of its existence. Rather, mutual mistrust has widened due to frequent postponements of its annual summits of heads of states and governments, the recently aborted Thirteenth Summit in Dhaka (scheduled for February 2005) being the latest instance. Hegemony by the larger countries in the region has become more obvious than ever before.

In the field of economic cooperation, the SAARC Preferential Trading Arrangement (SAPTA) – signed in 1993 – followed by the signing of South Asian Free Trade Area (SAFTA) in 2004 are considered as encouraging signs. On social issues, the main accomplishment is the Social Charter (adopted in 2004) covering many issues like poverty, health, education, human rights, rights of women and children etc. Although the list of cooperation is quite elaborate, the implementation is just at the early stages.

The fundamental reason for such slow progress lies in that SAARC is essentially an instance of South-South cooperation, where the economies are substituting rather than complementing each other. They compete in the same markets – mainly in the United States (US) and the European Union (EU) – with similar product profiles and on the basis of a similar resource, viz., cheap labour. The low level of intra-regional trade — at just 5.3 percent — far less than other regional integration arrangements around the world)[4] manifests this problem.

When SAARC was established in 1985, the situation was different compared to today when globalisation has become the order of the day. Therefore, for obvious reasons, leaders decided to put 'bilateral and contentious' issues out of the agenda of the regional grouping.[5] However, the current situation warrants that issues like water, energy or security are considered no longer bilateral. They are at least regional, if not multilateral. SAARC cannot achieve desired progress without letting such 'bilateral and contentious' issues in the discussion table. The United Nations (UN) High Level Panel has encouraged using regional organisations in solving region problems. Regional organisations in Africa (e.g. African Union) are following such recommendations.

> Deeper economic integration should be considered on a sector-by-sector basis — setting aside political issues for the time being

It is widely regarded that the political tension between India and Pakistan is the main obstacle to SAARC's progress. On the contrary, there are sufficient reasons to believe that deeper economic integration may offer a ground for peaceful solution to contentious issues as it happened in the case of the EU. Strongly disagreeing to an opinion that SAARC will never take momentum until the problems between India and Pakistan are solved, Dahal (2004)[6] rightly observes: "the problems between India and Pakistan will never be solved until SAARC takes momentum."

The people of South Asia cannot afford to be embroiled in setbacks in a rapidly altering global landscape. Therefore, leaders must show their accountability, willingness and courage to take the right decisions soon. As the situation demands, the followings are some of the indicative suggestions to foster cooperation in the region.

Given the existing socioeconomic and political scenario in the region, functionalism seems to be the only way forward for SAARC. Experience shows that without supra nationality in the structure, progress beyond free trade area is virtually impossible. Like the European Coal and Steel Community (ECSC), creation of a South Asian Textile and Apparel Community (SATAC)[7] could be an acid test for SAFTA to be fully operational. Opening numerous avenues through off-the-track-one process,[8] the success of such initiatives could create sufficient pressure on political leaders to respond to the real needs of the people in the region. In this regard, people to people and business to business interaction has an important role to play.

Deeper economic integration should be considered on a sector-by-sector basis — setting aside political issues for the time being. Adequate institutions offering some sort of supra nationality in the structure should be built. A gradual move to form the SATAC, which delegates sufficient power to a Textiles and Apparel Commission, should be adopted. More such sectors with highest common interest to all the members could be integrated gradually to demonstrate the real benefit of co-operation. Agreeing to let bilateral issues in the SAARC agenda should rectify past shortcomings. Win-win situations must be found, and outsiders should be kept off regional issues. All the other tracks (for e.g., track two to five) should be left to interact freely to build mutual trust. All barriers to people to people contact should be removed; at least the port entry visa system for SAARC citizens should be introduced. These measures are by no means exhaustive. However, the more the liberal policies, the more benefits would be yielded. ■

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NOTES

1 http://www.unescap.org/tid BAfacts.pdf

2 http://www.mfa.go.th/bimstec/bimstecweb/html/background.html

3 http://www.mfa.go.th/web/881.php and http://www.iornet.com/new-iornet/index.htm

4 The World Trade Review. 2005. SAARC Postponement. 16-28 February. Islamabad: TWTR.

5 http://www.saarc-sec.org/main.php?id=10&t=4

6 Dahal, Navin. 2004. Indo-Pak Ties and SAARC. *The Kathmandu Post*. 20 January.

7 See Robbani, Md. Golam. 2004. Enhancing Collective Export Competitiveness on Textiles and Clothing: A Study of Select South Asian Countries. *Research Report 428*. Jaipur: CUTS-CITEE .

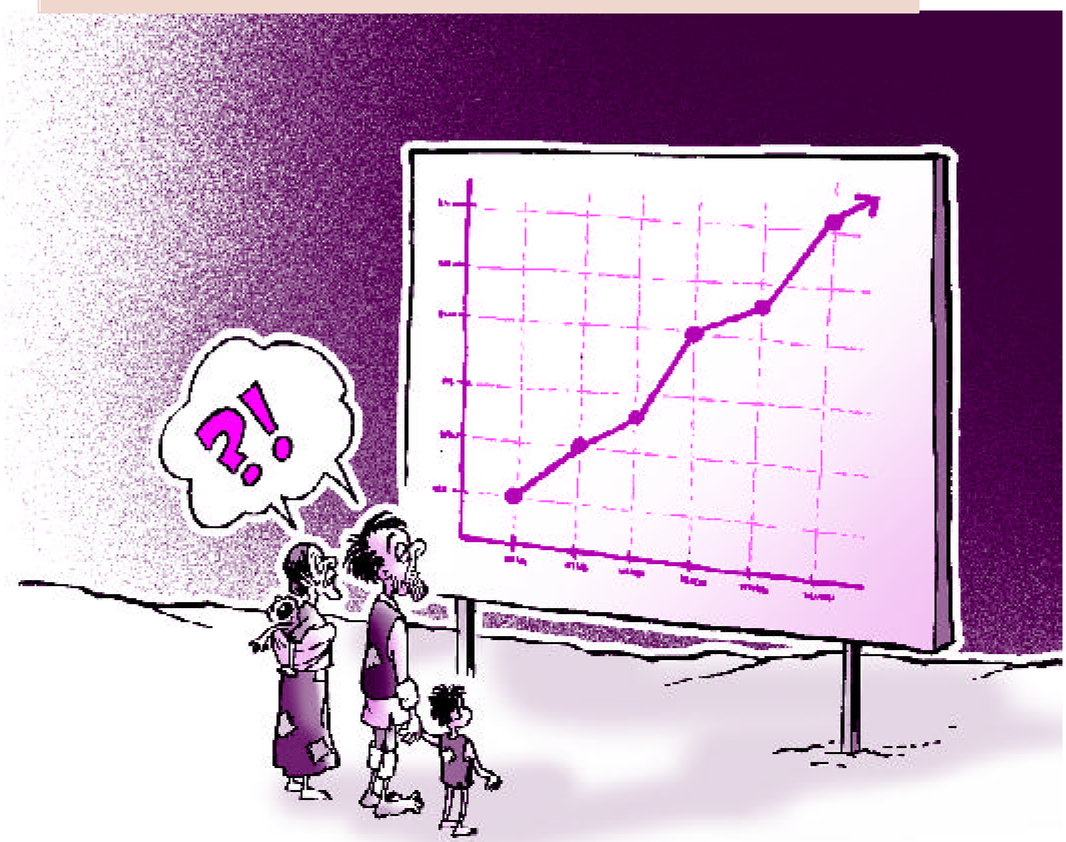
8 Track One: Official, government-to-government diplomatic interaction; Track Two: Unofficial, non-government, analytical, policy-oriented, problem-solving efforts; Track Three: Business-to-business interactions; Track Four: Citizen-to-citizen exchange programs of all kinds, such as scientific, cultural, academic, educational, sports etc.; Track Five: Media-to-media initiative.

Liberalisation and Sustainable Growth

Prospects for South Asia

"The debate is not about whether growth is good or bad, but whether certain policies – including policies that may lead to closer economic integration – lead to growth; and whether those policies lead to the kind of growth that improves the welfare of poor people." Joseph E. Stiglitz[1], *Nobel Laureate in Economics, 2001*.

Shyamal Krishna Shrestha



The linkage between economic liberalisation and sustainable growth has been debated at great length.[2] While the 'Washington Consensus' policies are credited for sustained growth and poverty reduction in certain countries; economic stagnation, and increasing marginalisation, poverty and inequality are also attributed to these policy measures.[3] Thus, not only domestic responses and adjustment to reforms but also the global economic scenario that has a strong bearing on growth must be considered.

As a response to poor macroeconomic performance characterised by low rates of economic growth, inflation and balance of payments difficulties that occurred under planned development strategies, the countries (Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan and Sri Lanka) embraced market-oriented policies. Aided by the conditionalities of the Bretton Woods institutions, South Asian nations have been undertaking economic reforms. The impact on growth has been both salutary and adverse.

While growth in gross domestic product (GDP) in all developing countries averaged 0.6 percent during the 1980s and 1.5 percent in the 1990s, South Asia grew at 3.3 percent in the 1980s and at 3.2 percent in the 1990s. Its performance was surpassed only by East Asia and the Pacific, which grew at 5.2 percent during 1980-2002. Furthermore, the average annual growth rate of gross national product (GNP) of 5.2 percent during 1993-2003 supports South Asia's promising performance whereas long-term GDP per capita growth forecast for the next decade (2006-15) is expected to hover around 4 percent.[4]

However, economic growth does not capture all aspects of human welfare; and in South Asia it has not been sufficient to alleviate poverty and address inequality. South Asia constitutes around 1.4 billion people, 32 percent (or 446 million) of who live in poverty (measured by the headcount index to include those surviving on less than US$ 1 per person a day). According to the World Bank's forecast, by 2015, 16.4 percent of the region's population (268 million people) will continue to live on an income level below US$ 1 a day. If the income poverty measure is doubled, the headcount poverty index will jump to around 60 percent. This would make the region home to the largest concentration of the poor: 968 million, a staggering figure that even surpasses Sub-Saharan Africa's poor by 300 million!

It has been observed that poverty in South Asia stems from high population growth and unsustainable growth owing to slow integration with the world economy, domestic conflicts and natural disasters.[5] It is also true that hitherto reforms in South Asia have not adequately addressed soceity's unequal production relations (like skewed ownership of assets and income, and access to opportunities). This has failed to push millions out of the vicious circle of poverty. Many forms of inequality within countries exist; often fueling conflict and civil war.

In terms of the macroeconomy, governments in many of these countries still maintain tight control. Despite rapid integration with the global economy, South Asia remains marginalised. The region's share in world trade is still insignificant, comprising just 1.1 percent of total merchandise trade exports and 1.6 percent of commercial services trade exports. Likewise, South Asia's share of world imports was 1.3 percent in merchandise trade and 1.6 percent in commercial services trade. Despite deregulation, gross foreign direct investment (FDI) in South Asia stands at just 1 percent of GDP.[6]

Intra-regional comparisons suggest that larger economies like India[7] and Pakistan have an edge due to better initial conditions. Their recent sustained growth has led to widening of differences in national, per capita and average annual growth rate of national income between them and their least developed country (LDC) neighbours. However, rapid growth in an LDC like Bhutan masks unequal distribution owing to exclusion of large sections of the population; whereas slow growth in Nepal has been compounded by political instability wherein economic activities have been disrupted since the past few years.

It is said that factor productivity is key to initiating and sustaining growth but factor markets are plagued with problems that carry political risks. Labour remain highly controlled (and politicised) and capacity to liberalise other sectors is dependent on mobilisation of scarce resources. Raising productivity demands higher levels of competitiveness. South Asian nations must invest in their human resources and infrastructure in order to enhance productivity levels and cushion against any vulnerability that globalisation brings.

Most South Asian countries (barring Bhutan) have gained accession to the World Trade Organisation (WTO). But the new international economic order has not ushered equal opportunities as 'new protectionism' in the North and dependency in the South have continued. The secular trend of decline in manufactured exports from LDCs is now plagued with new trade and non-trade barriers underming market access to rich country markets. The divisions between the North and the South have stymied attempts to reach agreements on various global trade issues, vital from the perspective of developing countries. South Asia, with its huge labour force and low production costs, has the potential to benefit from the myriad of opportunities that economic globalisation offers but concentration of economic activities in highly competitive markets of low value-added commodities reinforces trade-led 'immiserising growth' that will not generate enough profits, investments and wealth. In such a scenario, it is likely that the incomes of the poorest nations will fail to rise rapidly with the result that world income inequality will worsen.

As various studies suggest, market access to developing country exports and labour mobility from the developing world could generate higher benefits than foreign aid and investment inflows from the center to the periphery of the world economy. These issues should be accorded topmost priority in the context of trade liberalisation. Given the socio-economic realities in South Asia, a sustainable domestic growth agenda should prioritise strategies that put poverty reduction and redressal of inequality at the forefront. ■

NOTES

1 Stiglitz, Joseph E. 2003. Poverty, globalization and growth: perspectives on some of the statistical links. *Human Development Report 2003.* New York: Oxford University Press.

2 Dollar, David and Aart Kraay. 2001. Trade, Growth and Poverty. *Finance and Development.* Vol. 38, No. 2. September; and Rodrik, Dani. 2000. Growth Versus Poverty Reduction: A Hollow Debate. *Finance and Development.* Vol. 37, No. 4. December.

3 Wade, Robert Hunter. 2001. The Rising Inequality of World Income Distribution. *Finance and Development.* Vol. 38, No. 4. December.

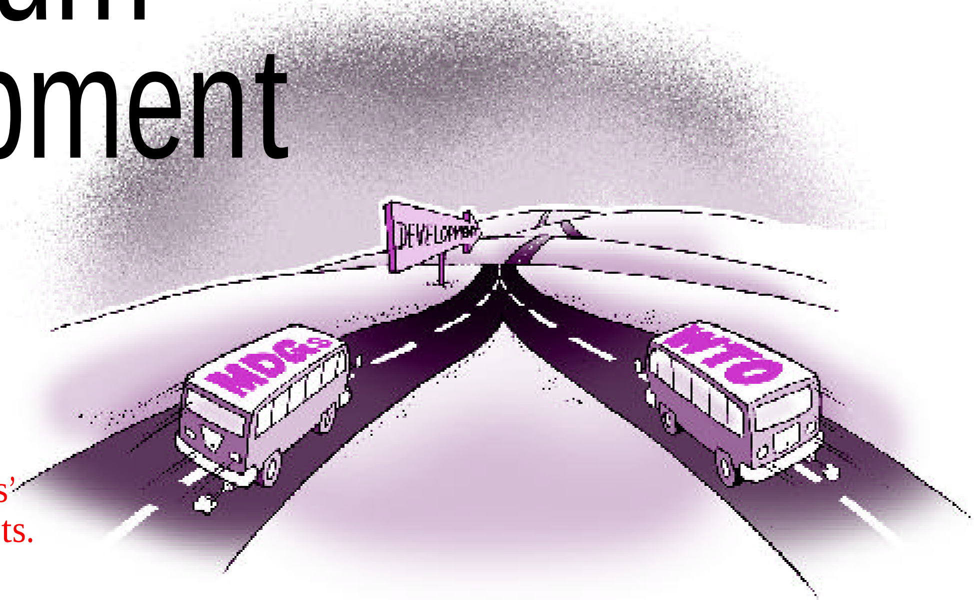
4 The World Bank. 2004. *Global Economic Prospects: Trade, Regionalism and Development.* New York: Oxford University Press.

5 Sharma, Kishor. ed. 2003. *Trade Policy, Growth and Poverty in Asian Developing Countries.* New York: Routledge.

6 The World Bank. 2004. *World Development Indicators 2004.* New York: Oxford University Press; and http://www.stat.wto.org/CountryProfile/

7 Acharya, Shankar. 2005. Decade of the Dramatic. *Outlook India.* 4 April. New Delhi: Outlook Publishing (India) Pvt. Ltd.

Interfacing the WTO with Millennium Development Goals



The WTO's remit extends from cross-border transactions to areas that crucially impact on countries' policies to meet MDG targets.

Kamalesh Adhikari

Two landmark events during the past 10 years have largely contributed to reshape the global policies for development. In 1995, the World Trade Organisation (WTO), which espouses the rules-based multilateral trading system, was established. Five years later, in 2000, the Millennium Declaration, which represents a global approach to development with eight Millennium Development Goals (MDGs), was adopted by heads of states and governments of 189 nations.

Now, after a decade of the WTO and half-decade since the adoption of MDGs, 2005 promises to be another important year. In 2005, two crucial events are due to take place – the United Nations (UN) Summit in September and the Sixth WTO Ministerial in December. The UN Summit, which would review the progress made towards MDGs; and the WTO Ministerial, which would streamline the Doha Development Agenda (DDA) based on the 'July Framework' and other recent developments, can be instrumental to identify the ways through which the WTO could contribute to MDGs.

WTO, MDGs and development

While the WTO's chief mandate is fostering free trade through multilateral rules for 'achieving more open and fair markets for the promotion of development', MDGs are 'the world's time-bound and quantified targets for meeting development objectives'. Therefore, to identify any relationship between them, it is first necessary to establish the linkage between trade and development. There is no unanimous view among economists as to whether trade has a salutary effect on economic growth. However, there have been many research studies that stipulate trade as a means and not an end for development. They opine that trade is the engine of growth and development and stress that trade policies must be linked to development and poverty reduction plans, if they are to drive growth.

These analyses suggest one important aspect of trade and development. Trade alone is far from sufficient to lead to development because other complementary policies are also required at the national level. This means that national governments (through their complementary policies) should be able to make trade work for development. Without denying this fact, the argument here is – are national governments solely responsible for making trade work for development? Is it not also a responsibility of the WTO (through its rules-based and non-discriminatory multilateral trading system)?

With the shift from the General Agreement on Tariffs and Trade (GATT) to the WTO, the framework of international trade has extended from limited mandate in trade in goods to trade in services and intellectual property rights (IPRs). The WTO's remit now does not only cover cross-border transactions but also extends to areas (public health, employment, agriculture, services), which crucially impact on national development policies. This means that if the WTO does not deal with trade from the development perspective, developing and least developed countries would find it difficult to use trade as a means for development.

WTO, MDGs and DDA

While there is a growing consensus that MDGs represent the best chance to lift hundreds of millions out of poverty, to achieve these goals, the role of the WTO as an institution cannot be underestimated. The WTO's *World Trade Report 2003* states that trade could make significant contributions in many of key goals and targets of the Millennium Declaration, particularly in the first (eradication of poverty and hunger), sixth (combat HIV/AIDS, malaria and other diseases), seventh (environmental sustainability) and eighth (global partnership for development).

In this respect, the launch of DDA in 2001 was a major breakthrough as it brought the issue of 'development' at the centre of the WTO work programme. However, with key deadlines missed and very little progress made under DDA, the Cancún Ministerial collapsed in 2003. It has clouded the prospects for contributing to development through trade. An attempt has been made in July 2004 with a Work Programme (July Framework) to revitalise the spirit of DDA. However, the present trend of negotiations does not promise any major breakthrough.

In this context, if the WTO has to lead to successful completion of DDA through the July Framework, it should not disregard the role of trade in helping countries meet their development objectives. In light of this fact, let us see how the WTO can help countries meet some important MDGs, besides helping them with the appropriate implementation of technical assistance and capacity building measures, and special and differential provisions.

Goal 1: Eradication of poverty and hunger

Since the multilateral trading system affects areas such as agriculture, food security and employment, it is necessary for the WTO to protect the interests of poor people in developing and least developed countries. This includes initiatives such as removing any form of tariff and non-tariff barriers on export interests of these countries, curtailing subsidies provided by the developed members to their farmers, and relaxing movement of natural persons under mode 4 of General Agreement on Trade in Services (GATS).

Goal 6: Combat HIV/AIDS, malaria and other diseases

IPRs in the pharmaceutical sector should not disregard the public health situation in the developing and least developed countries. Access to medicines at affordable prices should be ensured to all the countries that are suffering from HIV/AIDS, malaria and other epidemics. In these countries, health concerns largely with the development aspect and failing to address public health related issues might hamper the prospects of meeting Goal 6 as well as other MDGs. The Declaration on *TRIPS and Public Health* also emphasises that the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) should not prevent members from taking any measures to protect public health and reaffirms their right to use the provisions of TRIPS for this purpose.

Goal 8: Global partnership for development

DDA directly addresses key targets (12, 13, 14, 16, 17, 18) of Goal 8. It has recognised that the integration of least developed countries into the multilateral trading system requires meaningful market access facility to their products. In addition, there have also been initiatives to develop a work programme under the aegis of the WTO General Council that examines issues relating to small economies. This programme is important to address trade related issues identified for the fuller integration of the small and vulnerable economies. With regard to increased flow of technology to developing countries, the Working Group on Trade and Transfer of Technology established within the Doha framework should play an important role. Besides, productive employment to youth could also be secured if relaxed provisions for the movement of natural persons under mode 4 are ensured.

Conclusion

As trade alone does not lead to development, the WTO rules alone are not sufficient to achieve MDGs. This, however, does not mean that the WTO will not have any role to play. Since the WTO has progressively evolved to contribute more to development through trade (evident from the historic launch of DDA in 2001), the multilateral trade body can play a very critical role. Carlos Fortin, Officer-in-Charge of UNCTAD, referring to some estimates says: "Under the right conditions, the liberalisation of trade in agriculture, non-agricultural products, temporary movement of natural persons supplying services (mode 4 of GATS) and cross-border supply of services (mode 1 of GATS) could generate welfare gains of up to US$ 300 billion annually". Indeed, if poor countries are enabled to capture these gains, it would tremendously help them achieve MDGs. ■

Goal 8 and WTO related targets

Target 12: Develop further an open, rules-based, predictable, non-discriminatory trading and financial system

Target 13: Address the special needs of the least developed countries

Target 14: Address the special needs of landlocked countries and small island developing states

Target 16: In cooperation with developing countries, develop and implement strategies for decent and productive work for youth

Target 17: In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries

Target 18: In cooperation with the private sector, make available the benefits of new technologies, especially information and communications

Source: *http://www.developmentgoals.org/Partnership.htm*

Anti-Dumping

A Case for Review under the DDA

Hannah Irfan and Shandana Gulzar Khan

Anti-dumping measures have seen a significant increase since the establishment of the World Trade Organisation (WTO). This increase is seen in all trade remedy measures (anti-dumping, countervailing and safeguard). However, the surge is greater in imposition of anti-dumping measures.[1]

There has been concern raised by various camps on the need for the review of anti-dumping rules. A group of countries called the "Friends of Anti-dumping Negotiations" (Friends)[2] share a common interest in bringing anti-dumping negotiations on the current agenda, describing it as a "market access issue of equal importance to those being negotiated by the agriculture and non-agriculture market access (NAMA) groups."[3]

The use of anti-dumping measures is criticised on many fronts. One such criticism is that there is no economic rationale for their imposition; they essentially distort trade and fair competition. Trends in the imposition of such measures, it is argued, reveal that they are protectionist measures adopted by importing states to shield their domestic industry. This argument is, to some extent, substantiated by state practice with regard to imposition of trade remedy measures under the WTO (as well as prior to its existence).

It is also seen by most developing countries as predominantly a developed country tool to deny them market access and impose 'legal' barriers to trade. This criticism should not lead one to conclude that dumping actions have been taken only by developed countries against developing countries. Initiations by developing countries (India, Argentina and Brazil) constitute a significant percentage of dumping actions under the WTO regime.[4] China, a developing country, has been subject to the most anti-dumping investigations out of which a significant number of initiations are also from developing countries, especially India.[5]

There are a number of areas under the current anti-dumping rules that have been highlighted for review by various critics. Surprisingly, the United States (US), which has been traditionally opposed and reluctant to include a WTO review of anti-dumping in the Doha mandate, has called for a look at the effectiveness of and maintaining the strength of the trade remedy laws.[6] In its submissions "Basic Concepts and Principles of the Trade Remedy Rules" (TN / RL / W / 27), the US has called for greater transparency in operation and imposition of trade remedy measures. One of the controversial statements (dismissed by Japan) in the submissions was the criticism against the Appellate Body (AB) and Panel in handling anti-dumping disputes. The US stated that the Panels and the AB should refrain from "imposing on national authorities obligations that are not contained in the Agreements."

The Byrd Amendment dispute is a case in point. It was a challenge by the European Union of the US Continued Dumping and Subsidy Offset Act of 2000 (CDSOA). The CDSOA allowed US companies to claim money collected through anti-dumping or countervailing duties on foreign imports, thus benefiting indirectly from imposition of trade remedy measures on importers to the US market.

The AB, upholding the decision of the Panel, declared the said legislation a 'non-permissible specific action against dumping or a subsidy'. The US argued that the law under consideration did not refer to the specific elements of either dumping or subsidisation nor was dumping or subsidisation a trigger for the application of the legislation. However, the AB rejected the US argument and asked it to bring its law in conformity with WTO rules.

The US has been at the receiving end of much of the challenges of anti-dumping legislation and has been required to amend its laws in most cases. However, it is important that there is a call for review of anti-dumping laws from this long-time 'foe' of inclusion of these issues in the negotiating agenda.

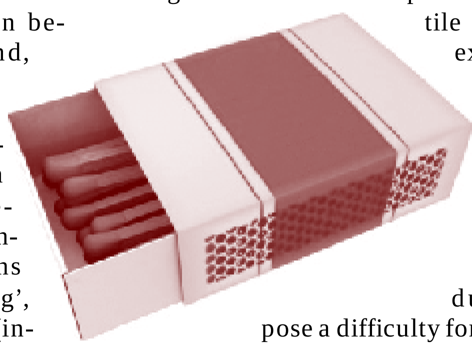
The Friends group has put forward a declaration on the high-priority objectives that should be included in negotiations on anti-dumping, which negotiations should see 'parallel and substantive' progress along with other talks / negotiations.

The issues highlighted by the Friends group include a review of the 'sunset clause' of the Anti-Dumping Agreement (ADA)[7], which prescribes the automatic termination of the anti-dumping measure after a lapse of certain period of time. Article 11.3 prescribes the said time period of five years after which the anti-dumping measure should be terminated. However, if the national authorities feel that there is still a danger for the continuation or recurrence of dumping and injury, then the five year period can be extended.

This allowance to the national authorities and the language of Article 11.3 of the ADA have resulted in the misuse of this discretion by authorities in many countries and have been the subject of dispute settlement at the WTO.[8]

Its use has been made mainly for protectionist purposes. The language of the relevant article has contributed to this misuse and needs to be tightened whereby continuance of an anti-dumping measure should follow a "complete investigation of dumping, serious injury and causality of this injury with dumping rather than only a consideration of the 'likeliness' of continuation or recurrence of dumping".[9]

Another area that has received much criticism is the use of the principle of 'zeroing' in calculation of weighted average dumping margin. In the weighted average calculations the figures, which signify negative dumping are 'zeroed off', i.e., negative figures are given the value of zero rather than the actual value. This results in an inflated weighted average figure that leads to a higher dumping margin being calculated and, subsequently higher duties. Despite the decision of the AB on the denouncement of the method of calculations based on 'zeroing', some countries (including the US) continue to use and defend its use.



One reform called for by both the US and the Friends group is a need for greater transparency and the strengthening of due process in the dumping proceedings. This is raised as a contention against the Egyptian authorities by Pakistan in the match box case, which the latter is preparing to challenge at the WTO. In this case, Pakistan alleges that summaries of confidential information were neither provided nor any statements on the reason for non-summarisation issued by the Egyptian authorities.

Definitional issues are also a problem, leading to the ambiguity of the ADA and the prevention of abuse by countries of trade remedy measures. Clarification and agreement is required on what qualifies as 'dumping,' 'injury' and the very complex issue of 'like product.'

The curtailment of the role of the Panel in dealing with cases of anti-dumping has been criticised as it specifically restrains the Panel from "pronouncing whether or not such a measure is consistent with the obligations of the member under the ADA. The Panels have merely to determine whether the establishment of the facts by the authorities has been proper and whether the evaluation of the facts has been unbiased and objective."[10] The actual evaluation of the authority will not be challenged by the Panel as long as they are satisfied as to the objectivity of the evaluation.

In the wake of quota free regime in textiles, where countries are wary of cheap goods flooding their markets, trade remedy measures may be used as protectionist tools to curb imports. Those developing countries that depend heavily on the textile sector for foreign exchange earnings need to push for tightening of procedures leading up to the imposition of remedial measures.

Costs of anti-dumping cases also pose a difficulty for developing countries: collection and access to data in importing/exporting markets abroad, calculations with regard to cost of production etc., and defending the case before foreign courts including cost of legal assistance and litigation. Care, however, needs to be taken where procedures are simplified and made cheaper that there is no compromise on the objectivity of the proceedings.

Korea has submitted a Senior Officials' statement (TN/RL/W/171) calling for accelerated negotiations on the anti-dumping rules in the wake of the Hong Kong Ministerial. The need is felt by the Friends group for the preparation of and consensus on a textual outcome on key areas of concern that can form the reference point for the future negotiating agenda. The Korean ambassador to the WTO enthusiastically advocated this view stating that anti-dumping was an "indispensable pillar of the negotiations that sustains the whole Doha Development Agenda package." The textual base will form the 'stepping stone' for continuing final negotiations at the Hong Kong Ministerial in December 2005. ■

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NOTES

1 During 1995-2004, the total number of anti-dumping initiations by reporting countries were 2537. Statistics available at www.wto.org anti-dumping rules negotiations.

2 The 'Friends of Anti-Dumping Negotiations' include Brazil, Canada, Japan, Korea, Taiwan, Thailand, Singapore, Hong Kong, Mexico, Chile, Costa Rica, Israel, Norway, Switzerland, India and Colombia.

3 International Centre for Trade and Sustainable Development. 2005. *Bridges Weekly Trade News Digest*. Vol. 9, No. 2. 26 January. Geneva: ICTSD.

4 See note 1 above and WTO Press Release "WTO Secretariat reports significant decline in new anti-dumping investigations." Press/374, 20 April 2004.

5 CUTS Centre for International Trade Economics & Environment. 2004. Protectionism and Trade Remedial Measures. *Research Report*. Jaipur: CUTS-CITEE.

6 International Centre for Trade and Sustainable Development. 2002. *Bridges Weekly Trade News Digest*. Vol. 6, No. 36, 24 October. Geneva: ICTSD.

7 Agreement on Implementation of Article VI of the General Agreement on Tariffs and Trade 1994.

8 WT/DS268/AB/R United States - Sunset Reviews of Anti-dumping Measures on Oil Country Tubular Goods from Argentina - AB-2004-4 - Report of the Appellate Body.

9 See note 4 above.

10 http://www.redem.buap.mx/rm41.htm

Joint Efforts to Address Supply Side Constraints in South Asia

In the context of enhanced market access opportunities offered by the regional and multilateral trade agreements, South Asian countries urgently need to make joint efforts to address their supply side constraints in sectors such as transport, energy, standards and custom procedures.

Navin Dahal

Trade liberalisation could be said to have started in earnest in 1947 with the establishment of the General Agreement on Tariffs and Trade (GATT). The negotiations for the liberalisation of international trade continued in eight rounds and culminated in the establishment of the World Trade Organisation (WTO) in 1995. Trade liberalisation, right since 1947, has focused mainly on reducing tariff and (to some extent) non-tariff barriers on the cross-border movement of goods. The ongoing Doha Round of the WTO also deals mainly with the market access issue – the 'demand side' of international trade – while ignoring the capacity of developing countries to benefit from enhanced market access opportunities: 'supply side' concerns.

The importance of the supply side issues in international trade liberalisation was highlighted by Rubens Ricupero, former Secretary General, United Nations Conference on Trade and Development (UNCTAD) during the first session of the Trade and Development Board Preparatory Committee of UNCTAD XI held on 15 October 2003 in Geneva. He observed: "It is my conviction, as I have said many times recently, that at the root of the reluctance of many developing countries to engage in trade negotiations is the realisation that they are really not competitive, and that many of them are totally dependent on one, two or three commodities. We have to focus on this weak side of the international approach to trade matters. Much attention has been given to trade negotiations, perhaps even too much, and not enough to the other side – the supply side response – as if this response were automatic or linear, when this is not in fact the case, as it depends on many factors."

Even within South Asia, the focus of regional trade liberalisation under the South Asian Free Trade Area (SAFTA) has been on the reduction of tariffs on goods and not on the supply side issue. It ignores the capacity of countries at a lower level development to benefit from enhanced market access opportunities. The assumption in the regional trade agree-

ment seems to be that these countries will automatically benefit from reduced tariffs.

Supply side constraints in South Asia

South Asia grew at an average annual growth rate of 5.5 percent over the last decade. Countries in South Asia (barring Sri Lanka) had traditionally adopted protective and inward looking trade policies but opened up to international trade during the 1990s. Except for Bhutan, which is in the accession process, all other countries are members of the WTO. Despite the predictable market access environment created by WTO membership, South Asian countries have not been able to convert the same into 'market entry' opportunities.

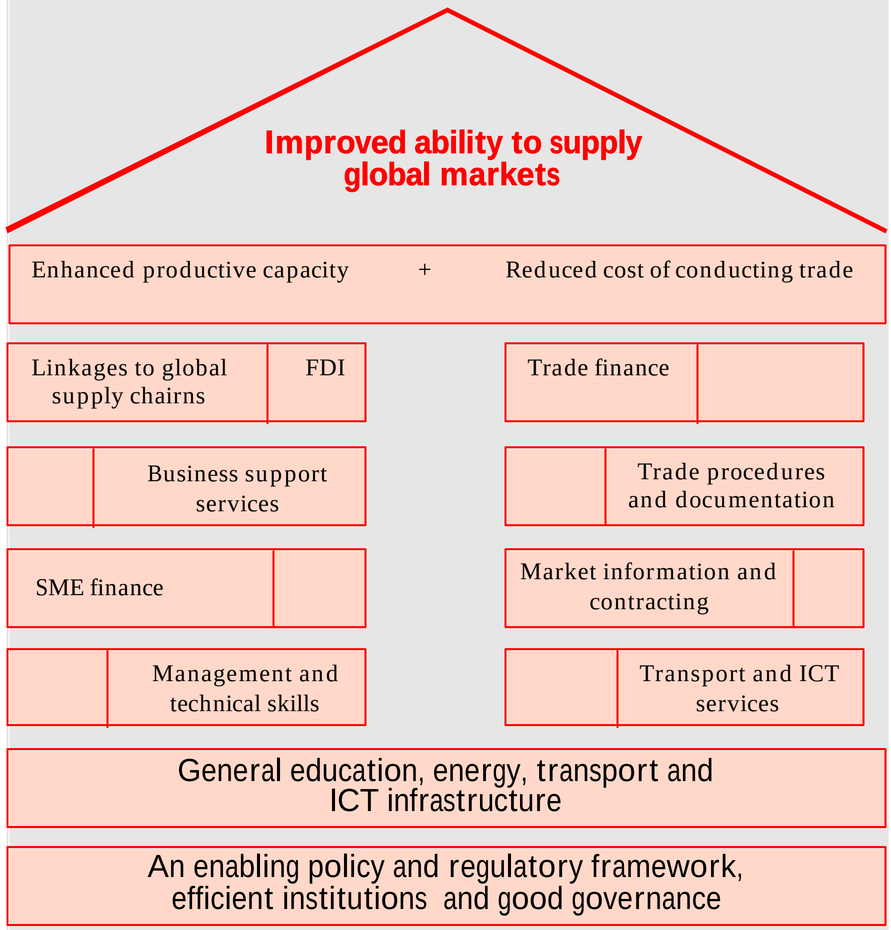
Trade performance has been discouraging with South Asian countries ranking between 122 and 129 among 184 countries in the world in the area of basic manufacturers.[1] South Asian exports are also concentrated in the developed country markets and lack dynamism in terms of

Supply side constraints

Whether or not a country benefits from enhanced market access depends on how efficiently it can produce and trade, which is determined by the competitive ability of the enterprise, industry and national economy. This, in turn, depends on the business climate in which enterprises conduct their business. The figure below shows the building blocks for enhancing supply side capacities. An enabling policy and regulatory framework, efficient institutions and good governance form the foundation for enhancing supply side efficiency and productivity. Regulatory policies that enhance competition, support contract enforcement, protect property rights and reduce regulatory costs are other important measures to increase efficiency and foster innovations. Quality education, reliable energy, transport and information and communications technology (ICT) infrastructure grow under a stable political and economic environment and support the two pillars for improving supply side capacities: enhanced productive capacity and reduced cost of conducting trade.

Measures to enhance productive capacity include widening access to finance for small and medium enterprises (SMEs), increasing the quantity and quality of business support services, improving management and technical skills and increased linkages with global supply chains. The other pillar of the figure for enhancing supply capacity includes measures to reduce cost of conducting trade such as cost of financing, transport, information and contracting costs and administrative and procedural costs.

Building blocks for enhancing supply side capacities



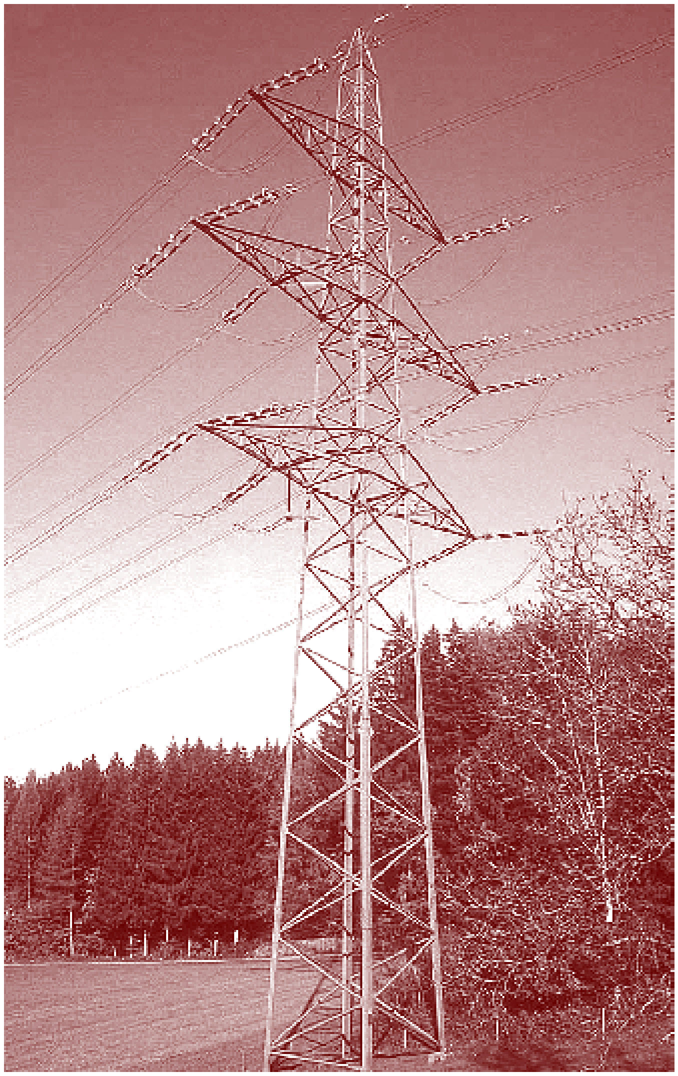
Source: UNESCAP. 2004. *Addressing Supply Side Constraints and Capacity Building.* Bangkok: United Nations Economic and Social Commission for Asia and the Pacific.

skills and technology content.[2]

Intra regional trade performance has also been much below expectation at around 5 percent. The least developed countries (LDCs) have not been able to substantially increase exports within the region. They also have not been able to increase their competitiveness at the global level and their exports depend on two or three products. The expiry of apparel quota on 31 December 2004 makes the exports of Bangladesh and Nepal vulnerable as they depend excessively on apparel exports.

Various external and internal factors are responsible for this. In the external front, the stringent rules of origin (ROO) requirements, distortions in agricultural trade and restrictive standards, and non-tariff measures such as quotas, tariff-rate quotas, product standards, and testing, certification, packaging and labelling requirements, among others, prevent the growth in exports. As noted above, though these external factors are important and should be addressed; internal factors are also equally important to benefit from international and regional trading opportunities.

These internal factors are responsible for the lack of competitiveness of the domestic enterprises and restrict their potential to export and effectively participate in international trade. Although the countries have to address most of these constraints individually, there are some constraints, which can be overcome more effectively as a group. Such collective efforts will be more effective in areas such as transport, standards, energy and custom procedures. The following sections focus on some of the possibilities of joint efforts on these sectors.



Collective efforts in selected sectors

Although efforts to enhance regional cooperation in South Asia began with the establishment of the South Asian Association for Regional Cooperation (SAARC) in 1985, the progress has been lackluster. However, if backed by strong political will and administrative determination, there are areas in which cooperation can bring about substantial and tangible gains to all the member states. This will not only help the countries in South Asia to enhance their competitiveness and benefit from market access opportunities but also help to accelerate the economic integration process in the region.

Transport

Transport infrastructure is crucial for enhancing trade and competitiveness. The contiguous nature of the Indian subcontinent and the fact that developing transport infrastructure transcends national boundaries make collective effort in this area more effective. Cooperation in the transport sector will help not only landlocked countries like Nepal and Bhutan but even India in accessing its north eastern states using Bangladeshi ports that could provide alternative to road and rail transport. The state of affairs in the regional transport sector can be gauged by the fact that a trade consignment takes around four to six days for clearance from Indian border to Bangladesh side and vice versa.[3]

Likewise, South Asia (especially India) has an extensive railway network. However, the lack of inter country container trains between India and Pakistan and India and Bangladesh has made road transport the main means of transport for regional trade. Container train service between Nepal and India is also in the initial stage and road transport is still the preferred mode of transport. The lack of direct shipping links between Pakistan and India and high shipping costs moving from the ports of Bangladesh to ports of India are hindering regional trade. Similarly, high handling costs and operational inefficiencies in most South Asian ports make the South Asian exports uncompetitive in international markets. To realise the benefits of collective efforts in this area, the countries in the region will first have to remove political barriers to transport integration.

Standards

Standards define the characteristics of a product, process or service, which, in turn, determines the quality feature in the product or process and make the user's life easier.[4]

Most trade agreements including the WTO allow members to restrict the import of goods that do not meet minimum standards to protect human, animal and plant health and safety. Most of the South Asian countries lack the institutional, financial, technical and human resources to deal with regional and international standards. Intra regional as well as international trade is being affected by the inability to adhere to the standards of importing countries. At the regional level, identification of products where intra regional trade is being affected due to variation in national standards and harmonisation of these product standards will facilitate trade. Similarly, access to certification schemes relating to products, systems and services of one country by other countries and promotion of mutual acceptability of the certification process of member countries will also boost regional trade. A regional infrastructure linked with national institutions and stakeholders will provide the platform to deal with this issue collectively.

Regional cooperation can also help to effectively deal with sanitary and phytosanitary measures and technical barriers to trade facing South Asian exports in the developed countries. For this, standardisation should be based on international standards and not national standards. South Asia should also take a proactive role in international standard setting process. Initiatives such as launching of regional eco-label could also help South Asian exports.

Energy

India is emerging as one of the world's largest energy markets, creating ample opportunities for countries with huge energy potentials to benefit from its export. The complementarities in the energy sector in South Asia mean that there is a huge potential for regional energy trade. Such complementarities are found not only in the diversity of resource endowments but also in the seasonal characteristics of the supply and demand of power, geographical proximities of the demand centers and technological base of power industry.[5] Bhutan and Nepal have huge hydropower potentials and can become major suppliers of power to India. Electricity to India already constitutes the leading export of Bhutan. Similarly, Bangladesh has the potential to export surplus natural gas to neighbouring countries. With its strategic location between energy rich Central and West Asia and energy deficit South Asia, Pakistan has the potential to become a transit point to connect the two regions. If South Asia's energy scenario were to be defined within a regional context, its energy needs could be served through a common distribution system integrated within a single energy grid of power and gas lines extending across the region.[6] Collective efforts will be required to address the issues of cross-border pricing, harmonisation of standards etc., required to set up such a system. The policy, institutional, technical and commercial barriers to the development of South Asian energy market can also be overcome through collective efforts.

Custom procedures

Joint efforts will also be required to harmonise the custom procedures of members as divergence of custom procedures hampers free flow of goods. This would entail simplification and uniform application of custom procedures and mutual cooperation and assistance.

Efforts in this area started in 1996 with the establishment of a Group on Customs Cooperation as per the directions given at the Seventh Committee on Economic Cooperation Meeting held at New Delhi, India. The key elements of the customs action plan included uniform application, harmonisation and simplification of custom procedures and practices; effective implementation of the WTO Agreement on Valuation; uniform application, updating and promotion of the harmonised system; and enhancement of the effectiveness of the customs administration in their compliance responsibilities and human resource development. However, progress in these areas has not been promising.

In addition to the above, cooperation in the delivery of business support services will also help to enhance the management and technical skills in the region. Identification of training institutes, experts and specific industry expertise in the region followed by regional level training and exchange will help reduce duplication and increase efficiency.

These are only few of the many areas in which South Asian countries can cooperate in order to enhance their competitiveness and benefit from market access opportunities offered by trade liberalisation measures, including those under the auspices of the WTO. However, despite the enormous economic benefits, lack of political will is hindering this process, which can be overcome only through sincere and far-sighted leadership. ■

(Mr Dahal is Research Director at SAWTEE)

NOTES

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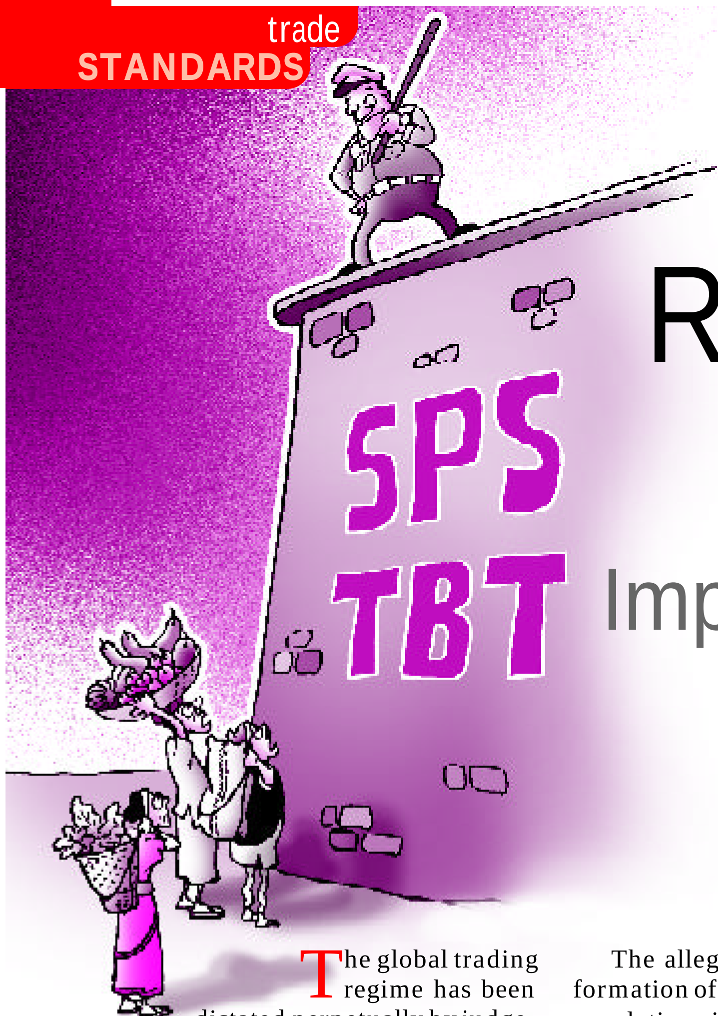


Distorted Rationales and Power Plays

Implications of TBT and SPS for South Asia

Dikshya Thapa

The global trading regime has been dictated perpetually by judgements and decisions of the industrialised countries. Under a semblance of global consensus, developing countries have, in fact, been victims of the interests and decisions of rich nations in the conduct of international trade. Among the numerous instruments employed by the latter to promote their economies, the use of non-tariff barriers (NTBs), in general, and standards and technical regulations, in particular, has gained currency during the last decade. This is partly a consequence of the dismantling of traditional trade barriers (tariffs, quotas and subsidies) under multilateral agreements of the World Trade Organisation (WTO), which has conversely led to an increasing use of NTBs as substitutes by advanced countries to protect their markets. It has to be noted that some standards reflect genuine concerns for the health and safety of consumers. However, the problem lies in the fact that in most cases, standards are increasingly being used false-heartedly by those who set the rules of the global trading system.

The alleged rationale behind the formation of standards and technical regulations is to protect human, animal and plant life and health, and ensure a minimum level of quality and suitability of goods entering a country's domestic market. However, due to the plethora of varying standards in various countries, the arbitrariness of standards and their illicit use to protect markets were feared to be increasing, along with the costs of compliance for exporters. Thus, to reduce transaction costs, facilitate international trade and ensure the legitimacy of standards, it became necessary to harmonise standards and establish uniform guidelines for setting and conforming to them. Subsequently, Agreement on Technical Barriers to Trade (TBT Agreement) and Agreement on the Application of Sanitary and Phytosanitary Measures (SPS Agreement) emerged as a result of the above mentioned policy objectives.

Although these were the stated motives, the TBT and SPS Agreements were largely undertakings of the United States (US) and the European Union (EU), which wanted to ensure that the guidelines for standards are established in a manner that would not disadvantage their domestic producers. The EU wanted to ensure that all members base their standards on international ones, which mostly originate from European needs. In contrast, the US, fearing that its local producers might be disadvantaged by the imposition of international standards favourable to European interests, sought for more transparency and time to comment on newly formed international standards. Thus, according to them, the previous guideline, the Standards Code — binding only to its 40 signatories — was not effective enough and needed further reforms. Hence, the Uruguay Round (UR) of multilateral negotiations provided a forum to reform the Standards Code and to impose obligations on developing countries that were non-signatories. The Standards Code was thereafter converted to the TBT and SPS Agreements and extended to all General Agreement on Tariffs and Trade (GATT) contracting parties, irrespective of the problems and needs of developing countries. As a concession, certain safeguards were granted to developing countries. However, not a single provision has been seriously acted upon till date.

South Asian participation in the negotiations was negligible from the beginning, with India and Pakistan playing a more active role while participation by other countries is almost absent. As a result, most South Asian countries do not even possess an adequate understanding of the requirements, concessions and implications of the Agreements. For example, the Agreements require members to base their national standards on international ones such as those formulated by the International Organisation for Standardisation (ISO), Codex Alimentarius Commission (Codex), International Office of Epizootics (OIE) etc. However, ISO and Codex standards are largely based on developed country ones and do not take into account the situation of developing countries. The product quality and food safety problems of South Asia are significantly different than of the former. Food safety hazards are different and are transmitted through different means. Resources spent on implementing international standards in the region could be spent on targeted food safety problems instead. It seems likely that focusing on developing country needs would yield a more cost effective food safety measure.

Despite this, South Asian countries are required to base their standards on international ones. This has created much strain as countries lack the necessary technical, financial and human resource capacity to conform and have ended up with standards at levels extremely inappropriate to their situation and requiring infrastructure that is simply not present.

The Agreements also hold that if a national standard is only 'based on' and not 'conforming to' international standards, i.e., the national standard only incorporates *some elements* of the international standard and not *all elements* to be fully alike, then it does not enjoy the benefit of full consistency with the Agreements. This places South Asian countries in a vulnerable position as most of them cannot 'conform to' international standards and can be accused by developed countries of violating the Agreements.

Furthermore, the Agreements allow countries to place even more stringent standards than international ones and to apply temporary standards without sufficient scientific information if a potential threat is perceived. This has severely restricted market access for South Asian exports that have frequently suffered through the use of extremely stringent standards. The EU's ban on Bangladeshi shrimp exports in 1997, on grounds that it did not meet its rigid Hazard Analysis Critical Control Point regulations, caused losses estimated at US$ 14.7 million. The long-term consequences of structural unemployment, livelihood losses of 1.2 million farmers directly employed in the sector and an additional 11 million indirectly employed and the potential damage caused by market turbulence are inestimable. Citing lack of pesticides control and other SPS measures, Norway deemed Nepali honey unfit to enter its domestic markets. With its major market gone, Nepal is now forced to sell honey mostly to its neighbouring countries at lower prices, which has not only resulted in a loss of foreign currency earnings but also a loss of incentives to traders due to lower returns. The situation is aggravated by the fact that the onus lies on developing countries to gather proof of unfair treatment against developed countries, which is next to impossible given the former's resource and capacity constraints.

The provision of technical assistance is also vague in the Agreement and does not entail any commitments. Despite the call for a more organised approach by several developing countries, the TBT and SPS Committees have not looked upon this issue sincerely. The level of assistance is inappropriate and falls short of the immense needs of the region.

South Asian countries also lack the financial and technical resources to appeal to the Dispute Settlement Body (DSB) in case of unfair market restrictions. The costs of filing a complaint to identifying the appropriate violation are enormous, while information is undersupplied in the region. Private enterprises that normally provide information about market access problems see little use of complaining or the market is at times too small to make it worthwhile spending the time and money to convince national governments to bring the case to the WTO. In addition, the solution provided by the DSB, if a rule is not followed, is counter-productive for developing countries as the solution calls for enforcing punitive tariffs on the offender. This is more costly for developing countries as they import most of their raw materials and foodstuffs from abroad.

The two fundamental problems, therefore, appear to be the following. First, there is a wide gap between the financial, human and technical resources of the region and the resources demanded for implementing the Agreements in a beneficial manner. Second, without giving any attention to the condition of the developing countries, the developed countries have been using standards to protect their markets from foreign competition.

Therefore, the Agreements should be more sensitive to the needs of developing countries by imposing technical assistance requirements on the advanced countries. They should also adhere to strict, scientifically based criteria in the application of standards and should not place the burden of proof, in case of more stringent standards, on developing countries. As the very nature of the TBT and SPS Agreements appear to be protectionist and are based on two contradictory objectives — protection of consumers and prevention of illegitimate barriers — it is extremely pertinent to strike a balance between the two. In other words, it should be ensured that precautionary measures for the protection of lives in one country do not directly result in the destruction of markets and loss of livelihood options in another country. Unbiased evaluation and analysis through a case-by-case study is, therefore, crucial for effective functioning of the TBT and SPS Agreements. ■

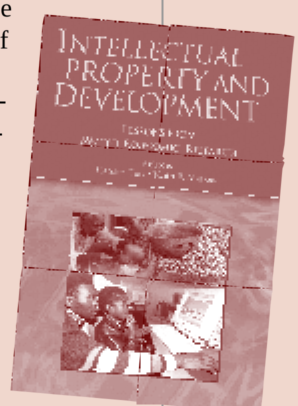
(Ms Thapa is Programme Associate at SAWTEE)

Intellectual Property and Development

Lessons from recent economic research

Prashamsa Gadtaula

Published by the World Bank and Oxford University Press, the 12 chapter book: *Intellectual Property and Development: Lessons from Recent Economic Research*, tries to find complex answers to the simple question: What are the economic implications of intellectual property rights (IPRs) mandated by various international frameworks including World Trade Organisation's (WTO) Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS)? Edited by Carsten Fink, Development Research Group, the World Bank and Keith E. Maskus, Department of Economics, University of Colorado, the book brings together recent empirical studies on the effects of changing IPR regimes in the developing world and offers a number of suggestions for future research.



In a closed economy, IPRs provide incentives to investors to develop new knowledge and to authors and artists to create new forms of artistic expression. Thus, over time, there are gains from the introduction of new products, information and creative activities. But in terms of efficiency, this market exclusivity reduces competition, which might lead to static distortions in the allocation of resources. In an open economy, a weak IPR regime allows domestic firms to imitate foreign technologies thereby contributing to high productivity and income growth. This is based on the assumption that firms can master all components of new technology without the participation of foreign IPR holders. If that were not the case, stronger IPRs could be better suited to promote technology diffusion, by knowledge-intensive foreign inputs and promoting formal technology transfer through mediums like joint ventures and licensing agreements.

But a major question arises: Are the traditional intellectual property instruments that were developed in the industrialised world really suitable for stimulating innovative and artistic activities in the developing world? Although the fundamental incentives posed by patents, trademarks and copyrights should be the same around the world, developing countries differ from their industrial counterparts in their potential for innovation, the education of their labour force and the structure and funding of research and development. It is, therefore, clear that most positive and normative effects of IPR reforms are theoretically ambiguous and dependent on circumstances. There is, thus, room for further empirical research to make an important contribution in identifying the kind of intellectual property instruments that work best for a particular stage of development or particular set of institutional circumstances.

Dealing with IPRs and trade, the book states that stronger IPRs have a significantly positive effect on total trade. However, it also finds that stringency of a country's patent regime is irrelevant to trade in case of high-technology goods. The book identifies that as high-technology firms may decide to serve foreign markets through foreign direct investment (FDI) and licensing, exports in such industries may be little affected by variations on the degree of patent protection. Similarly, evidence is less conclusive in the case of FDI. It points that IPRs feature as one among the many variables that determine the attractiveness of an FDI location.

The book attempts to stimulate a debate on the effects of IPR reforms in developing countries on market structure and prices. A case study focuses on the implications of introducing product patent protection in the Indian pharmaceutical market, as required by TRIPS. Another case study of China focuses on the role IPRs play in motivating enterprise development and innovation in developing countries. It illustrates how inadequate enforcement of IPRs limits incentives to develop products and brand names, especially on the part of small and medium enterprises.

The authors suggest that there is an important development dimension to the protection of IPRs. They also point out that a 'one size fits all' approach is unlikely to work. Although the international framework for the protection of intellectual property provides for some degree of harmonisation of global IPR standards, TRIPS, in particular, still leaves important room to adjust IPR norms to domestic needs. It is likely that developing countries will be under pressure in future trade negotiations at the multilateral level, if not at the regional and bilateral levels. The key is, thus, to carefully assess whether the economic benefits of such rules outweigh their costs. ■

(Ms Gadtaula is Programme Associate at SAWTEE)

Sense and Nonsense of Rules of Origin

The world is not without options provided there is a willingness on the part of GSP donor countries to modify their ROO requirements.

Ratnakar Adhikari

CUTS

Rules of Origin (ROO) are a means to ascertain the country of origin of goods exported from a particular country, which, in turn, are imported by another country. In the context of integration of the global economy, it is becoming increasingly difficult for the countries to determine the ROO of the products, which are eventually shipped out of their territories.

For instance, a manufacturer / exporter of readymade garments from Bangladesh could use fabric from China, buttons and zippers from Hong Kong, thread from Taiwan, and packing material from the local market. The same manufacturer / exporter could use various services (such as insurance, banking, freight forwarding, clearing and handling) from agencies, which are not necessarily located in their own territory. In such a situation, to pinpoint the origin of each component and its contribution in the final value of the product is indeed a daunting task.

Two types of ROO currently exist in the context of multilateral, regional and bilateral trade arrangements. First, non-preferential ROO, which is used in the multilateral context while imposing trade remedy measures such as anti-dumping, countervailing and safeguards measures. Second, preferential ROO, which is used by developed countries while providing preferential market access such as generalised system of preferences (GSP) to the goods originating in developing countries and least developed countries (LDCs). This type of ROOs is also being used within free trade areas (FTAs).

There are three types of internationally adopted criteria for determining ROO. The first one is the change in tariff classification of the product, according to which importing countries see whether processing in exporting country led to change in tariff classification under the Harmonised System (HS) developed by World Customs Organisastion (WCO). A second criterion followed by various FTAs as well as preferential arrangements is based on percentage of value addition, viz., *ad valorem* criterion. A third criterion is manufacturing or processing criterion. According to this criterion, certain pre-defined operations only qualify for the goods to have originated in a particular country.

The main objectives of ROO are to facilitate preferential trade and prevent trade deflection (mainly in the context of FTA) as well as tariff evasion. The major fallout of ROO is that this requirement is very cumbersome, inefficient and resource demanding. It is costly and complex to administer. For example, the administrative costs of certifying origin in European Free Trade Area (EFTA) range from 3 percent to 5 percent value of export transactions.[1] Similarly, the administrative costs of providing the documentary evidence to support the certificate of origin under North American Free Trade Area (NAFTA) are in the region of 1.8 percent of the value of exports. The distorted impact of the rules, resulting from the need to use local and higher cost inputs to qualify, may be equivalent to an average duty of around 4.3 percent.[2]

ROO requirements imposed by GSP donor countries for providing preferential market access to developing countries and LDCs are even more cumbersome. Since GSPs are unilateral preferences granted by donor countries, they decide the ROO requirements. Stringent ROO requirements are mainly due to political economy factors in GSP donor countries – reflecting the interest of their import competing industries. The situation is best described by the phrase – *what GSP donor giveth, it can taketh*. While they promise preferential market access benefits to developing countries and LDCs, they know perfectly well as to how they could nullify the benefit. The justifications for imposing rigid ROO requirements are couched in altruistic fashion, such as, *helping promote industrialisation in preference receiving countries*.

This is particularly true in the case of clothing sector, in which ROO requirements of the United States (US) as well as the European Union (EU) are very stringent. While 'yarn forward' is the major requirement of African Growth and Opportunity Act (AGOA) preference[3], two stage processing (for e.g., from yarn to fabric and fabric to cloth) requirement is the 'hallmark' of EU GSP scheme.

It is not surprising that the rules contained in standard EU GSP as well as the US GSP plus (read AGOA) have not contributed to promoting industrialisation in the preference receiving countries, particularly in Africa. They have, in fact, constrained African capacity and made their clothing industries weaker than they might otherwise have been. Furthermore, critics of EU's ROO argue that it makes little industrial sense to require many processes to be undertaken within a single political entity.[4]

In some cases, the requirements of the GSP ROO have remained unchanged since the 1970s when they were conceived with an industrial policy and production technique, based on vertically integrated structure of the manufacturing chain. At present, the production of competitive products on a global scale demands a combination of production factors and inputs from a variety of sources to produce an output that is optimal in terms of cost, quality and suitability for different markets. Existing ROO, by limiting the capacity of outsourcing inputs and demanding vertically integrated production chains, may reflect uncompetitive and inefficient industrial models.[5]

LDCs have been particularly hurt by the stringent ROO. There is evidence to suggest that due to stringent ROO requirements and the resultant hassles involved, exporters would rather pay most favoured nation (MFN) tariffs and forgo the preferential tariff benefits provided by the donor country. For example, at least a third of all LDC exports pay MFN tariff due to restrictive ROO.[6] Worse still, the cost escalation resulting from restrictive ROO is disproportionately higher for small and medium enterprises, which are already experiencing difficulties in the face of increased global competition.

Some temporary measures such as derogation from normal requirements are in place to enhance the export performance of some of the poorest countries. For example, the EU has provided derogation from double transformation requirement for select products, subject to annual review, to certain Asian LDCs, like Laos, Nepal and Cambodia. Similarly, the US provides special AGOA derogation from standard ROO requirement to Sub-Saharan LDCs.

The world is not without options provided there is a willingness on the part of the GSP donor countries to modify their ROO requirements. Some useful initiatives are already in place, and there is no need to reinvent the wheel. Two examples of flexible ROO are: a) a lower value added requirement, say 25 percent; and b) allowing for single stage transformation, as being done in the case of EU GSP derogation mentioned above. Another way to go about is to maintain the rigid ROO, but allowing for cumulation, i.e., treating inputs derived from very large number of countries as originating in the exporting country. Canada has taken the lead on this matter. For example, in the case of textiles and clothing, the Canadian scheme allows cumulation amongst all developing countries (including most efficient producers like China and India) with a 25 percent value added requirement. This is something worth emulating by other developed countries as well. ■

NOTES

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4. See Stevens, Christopher and Jane Kennan. 2004. Making Trade Preferences More Effective. *Briefing Paper*. Brighton: University of Sussex, Institute of Development Studies.
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Trade and Gender

Evidence from South Asia

Women from South Asian countries have a unique opportunity to influence the future trade agenda and to seek economic and developmental gains from further trade liberalisation.

Veena Jha

Much concern has been raised regarding the effects of globalisation and trade liberalisation but little attention has been given on their effects on the livelihood of men and women. Preliminary evidence suggests that trade and growth have drawn a significant proportion of women into paid work for the first time and while wages for women are lower than for men, they are perhaps much higher than what these women would have earned in alternative sources of employment. Furthermore, women may, at times, be preferred to men in factory jobs, and that the regularity of wages may have increased the role of women in household decisions.

In the context of South Asia, the experience has shown that trade liberalisation and greater openness have integrated more women into the economic sphere of activity than ever before.[1]

Experience from South Asia

Women from South Asian countries have a unique opportunity to influence the future trade agenda and to seek economic and developmental gains from further trade liberalisation. Regional cooperation and coordination can be helpful in this context, as is evidenced by the growing strength of Southern Cone Common Market (MERCOSUR), Association of South East Asian Nations (ASEAN) and other such groups. There is also a need for South Asian countries to enhance understanding of gender implications of trade negotiations by encouraging policy-oriented research and helping to strengthen research capacities. This will enable more informed participation of women's groups in national and regional consultations on the World Trade Organisation (WTO) issues.

The impact of WTO rules are being felt in all aspects of economic life in South Asia, especially on women, and will increase over the next decade or so. Studies conducted by Oxfam, however, show that where export growth is based on labour intensive manufactured goods, as in Bangladesh, it can generate large income gains for women. There are caveats to be attached to these success stories. Rising inequality has slowed the rate of poverty reduction in South Asia and export growth may have been accompanied by extreme forms of exploitation, especially among female workers.

According to a literature review conducted by Maria Fontana on trade and gender, the employment effects of trade have been most favourable to women in countries that specialise in the production of labour-intensive manufactures. This includes most of the South Asian countries. The new employment opportunities for women, however, appear to follow traditional gender roles in the labour market. There is evidence of a moderate decline in the division of roles between men and women between sectors, especially in some middle-income Asian countries, but their traditional roles within the same sector seem to have become more pronounced. For example, more women may be entering software, tourism and other growing export sectors but their role in traditional sectors such as agriculture or textiles has not evolved from their initial positions.

Evidence on the impact of trade on the gender gap in wages does not lead to any general conclusion. Some studies suggest that the component of the gender wage gap due to discrimination is smaller in sectors exposed to trade than in other sectors. The component of the gender wage gap due to employment segregation appears, though, to be widening.

Women gain greater control over expenditures from their income when working in export-oriented factories, away from male relations. But in agriculture they may lose sources of independent income as a result of trade liberalisation. The impact on women's well-being and on that of their family members appears to be more positive for women working in manufacturing than in agriculture but empirical evidence is inadequate to make any generalisation.

Within South Asia, there are remarkable differences between countries. Comparing the conditions of employment in the textiles and garments industry between Sri Lanka, Bangladesh and India, we find that differences in women's employment and work conditions between these countries (faced with almost the same degree of globalisation) have to do with the structure of the textiles and clothing industry in the three countries. Unlike Bangladesh and Sri Lanka, the Indian textile and apparel industry, until recently, lacked coordination among the different links in the supply chain. Its pace of modernisation was slower than that of Bangladesh and Sri Lanka. But the volume of investment in the last few years would develop the industry considerably.

While Bangladesh and Sri Lanka have already adjusted to global competition, India has only just started the process. On the other hand, India's domestic market is about 60 percent of its production and is rising at about 15 percent annually. Most of its competitors are looking to its domestic market as a useful entry point. Wages in the export-oriented industry appear to be highest in Sri Lanka. This industry has the highest employment of women in all three countries, and most employment has grown with the growth of exports.

The conditions of employment in the export-oriented carpet industry in Nepal also appear to be better than elsewhere given by the fact that the turnover in this industry does not appear to be high. Most of the benefits granted as well as salaries offered also appear to compare favourably with other sectors as measured by the job satisfaction expressed by those who were interviewed by a study conducted for United Nations Conference on Development (UNCTAD) and United Nations Fund for Women (UNIFEM) by SAWTEE. It is difficult

to state that globalisation has had a negative effect on women's employment conditions. In fact, it is possible that external pressure exerted through consumer campaigns for better living conditions may have affected employment conditions including those of women positively.

As far as agriculture is concerned, exporters of primary commodities and agricultural producers face acute pressures from subsidised imports from developed countries. Markets for products such as sugar, cereals, beef, dairy and some edible oils are dominated by developed countries, which subsidise their own farmers to the tune of almost US$1 billion a day. Developing countries account for only one third of the total agricultural exports and this figure has remained the same over the last 30 years. It would thus be expected that trade liberalisation could have a negative impact on women in this regard. The experience of South Asia, however, is different.

In the marine food export processing sector in India, most women workers are young and unmarried. Most are literate and live in nuclear families. Women predominate employment in this sector. Many units use migrant women workers as they are better trained. Local women are also used after training has been given to them. However, they tend to be employed on a casual basis creating a lot of uncertainty for workers. Wages are paid according to the skill of the worker, the speed in processing and grading. Wages in this sector are higher than agricultural wages. Employment has given women financial independence and a chance to improve their standards of living often at the cost of their health.[2]

India has emerged as the world's second largest producer of food, and the leading producer of milk. Output and exports have both grown over the last 10 years, though export growth has outpaced output growth. Employment, particularly unorganised employment, has also grown extensively in this sector. Females constitute 27.3 percent of the total workers and a far greater proportion of part-time workers are female, i.e., 52 percent. In general, there has been an improvement in the lot of women employed by this sector.[3]

Females are involved in a number of different activities related to the spice industry in Sri Lanka but they are merely involved in activities that can be done along with the household work. Similarly, their involvement in marketing is minimal and hence contribution to the total income is at a lower level than their husbands' contribution. In general, it could be stated that female work in spice cultivation is casual, not accounted and un-paid. Hence, any impact on the spice industry of Sri Lanka will have very marginal effects on the women in the spice cultivation. However, the role of women could be considered important in meeting quality standards as they have a greater responsibility in drying and processing unlike men. In this respect, enrichment of women's knowledge on post-harvest technology and its importance in enhancing their income could contribute more to upgrading the final exportable product.[4]

In assessing the possible consequences of the WTO's Agreement on Agriculture (AoA) on women in agriculture and processed food specifically, the three pillars of AoA can be assessed – market access, domestic support and export competition. Of the three pillars, the most important pillar to have a significant impact on women in agriculture in South Asia is market access. Though there could be a notable improvement in market opportunities, several non-tariff barriers (NTBs) could obstruct the agricultural exports. However, in terms of the women in the spice industry of Sri Lanka, very marginal effects could be observed. In the food processing and marine products industries, women's involvement and incomes increased with trade liberalisation and increased exports. However, changes in their overall level of welfare remain uncertain, not least because of the high level of NTBs. Increased and predictable market access for exports from South Asia would add greater certainty to the welfare improvements of women.

> The experience of South Asia suggests that better market access opportunities would be a precondition for improving the benefits of trade liberalisation for women

In services, in Nepal, tourism is an important economic sector. Judging by the experience of the Nepalese tourism industry, incomes and benefits as well as expenditure by women, it is evident that the impact of liberalisation in this sector has been positive. Judging by standards of employment in least developed countries, it appears that some of the same parameters of employment as that of developed countries are being used in Nepal. The conditions of women's employment also appear to be better than that of others, even if the hours of work are long. But the tourism industry has not been performing well in the recent years. This has had its impact on various sectors since tourism is an industry with many backward linkages, generating indirect employment. Tourism covers everything from hotels, travel agencies, handicraft industry, restaurants, and souvenir shops to vendors. In fact, encouraging and opening tourism packages for South Asia as a whole would have a substantial impact on women.

In sum, the experience of South Asia suggests that better market access opportunities would be a precondition for improving the benefits of trade liberalisation for women. The studies in South Asia did not analyse the trade adjustment costs of sunset industries. However, high growth economies of South Asia which rely on labour intensive exports have a greater opportunity of distributing the gains from trade to women. Most studies have shown that women in export oriented industries were better off than they would be elsewhere.

Lessons learnt

Trade liberalisation can create new jobs in the light of market expansion and the need to cater to different market specificities. At the same time, trade liberalisation can also displace jobs because of competition from imported products. This applies to the employment of both men and women, but the impact on women is more marked because alternative employment is difficult to find and families depend more on women than on men. Whether the positive effects outweigh the negative effects depends on several factors, most importantly, the proactive measures taken by the government, the extent to which women are employed in a particular sector, market access, and on how women cope with trade adjustment costs. For example, textile and clothing exports constitute over 50 percent of the total domestic production and trade in several South Asian countries. Consequently, trade expansion would generate increased employment for women. However, the governments should proactively engage in building capacity of women, and intervene in sectors of export interest to them. Industries, particularly, small and medium enterprises, should be promoted as important economic agents as they are the major employers of women and serve as a basis for nurturing entrepreneurial talent in women.

Countries of South Asia, with large domestic markets, will have to undertake a far greater degree of internal economic reforms to experience the full benefits of a more open global economy. Women can be integrated more fully when the social and physical infrastructure of the region improves further. Higher employment, incomes and welfare for women would generate greater benefits for the family and for the nation as a whole. Globalisation through integration into global markets does generate uncertainties for women but these may be outweighed by net economic gains and distributional effects. ■

(Dr Jha heads UNCTAD India Office, New Delhi)

NOTES

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2. Rani, S.V. 2001. Impact of Liberalisation on Women's Health in Marine Food Processing Industry. *The Indian Journal of Social Work.* Vol. 62, Issue 4.
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Trade Justice

Global Week of Action on Trade

"Trade is not an end in itself, but should be an instrument for the promotion of human well-being, sustainable communities and economic justice."

THIS widespread assumption led many civil society organisations and religious groups across the globe to launch a Global Week of Action on Trade, which begun from 10 April. The idea to launch such a campaign was generated at the International Trade Campaign Conference in Delhi in November 2003 with a call to action that was endorsed at the Fourth World Social Forum in Mumbai in January 2004. The intention was to strengthen existing national, regional and sectoral campaigns, adding value to their work and bringing new people into them, rather than to start a new organisation.

The message of the campaign was: "Trade must benefit all, especially the poorest in the world. Trade is a basic act in any society and fair exchange can be for the good of everyone involved. But trade on unequal terms is damaging, creates and maintains inequities, and can lead to violence, conflict and environmental destruction. It is the wealthy who benefit from the present set of rules. We need new rules, ones that put the human and social needs of people first. We need trade justice." The target groups of the campaign were national governments, the International Monetary Fund (IMF), the World Bank, the World Trade Organisation (WTO), Embassies of G-8 countries and transnational corporations.

The global campaign that was launched with the principle that trade is for people and not the other way round called the governments and these institutions and corporations to recognise the fact that human rights and social and environmental agreements take priority over trade agreements and policies.

During the campaign, many events were organised worldwide – special church services, a global fast for trade justice, public debates, concerts, mass rallies, nationwide petitions, and farmers' hearings. The organisers of the week of action said that they aimed to challenge the 'myth' that the only way to reduce poverty across the world is through more free trade, liberalisation and privatisation. In response to this, through their different events, the organisers revealed the stories of those who are suffering as a result of international trade, put forward alternatives to the current trade system, and demonstrated the scale of the global movement for trade justice.

Stressing that developing countries must have the right to decide which sectors to open to trade and when, the groups co-ordinating the event, including branches of Oxfam, Christian Aid, Attac, and Focus on the Global South, said that developing countries should not be forced to liberalise their industrial, services, or agricultural sector at the WTO, and that negotiations on special and differential treatment should receive more attention. In addition, they argued that the IMF and the World Bank should stop attaching trade liberalisation conditionalities to their loans, and that liberalisation through bilateral and regional agreements between regions or countries at different levels of development should not put the interest of business before the needs and rights of local people and communities. They also called on developed countries to end export subsidies on agricultural products. They argued that if export subsidies would continue within the multilateral trade framework of the WTO, developing and least developed countries would be forced to live with more poverty, hunger and malnutrition.

They demanded that the WTO should not disregard the issue of trade justice. They called upon developed nations to show solidarity and help poor countries in their endeavours to meet Millennium Development Goals (MDGs), which was adopted at the United Nations Millennium Summit in 2000. Stressing that already many poor countries are finding it hard to meet the Millennium targets, they warn, "If the WTO does not support them through policies and rules based on trade justice, not only the poor nations would fail to meet MDGs, the entire world would also lose a chance to tackle world poverty." ■

Unofficial Negotiations
Unfair Deals, Unjust Decisions

The trade ministers should reject the use of unofficial and exclusive 'mini-ministerials' and 'green room' meetings in the run-up to the Hong Kong Ministerial and during the Ministerial itself.

Abid Qaiyum Suleri

Trade ministers from 25 key trading nations including the United States (US), the European Union (EU), Japan, Australia, India, Brazil, and Pakistan met in Kenya from 2-4 March to 'revive the World Trade Organisation (WTO) talks that collapsed in Cancún, Mexico two years ago'. In WTO's terminology, such a confidence building measure is termed as 'mini-ministerial' meeting. It is perceived that 'mini-ministerial' meetings are necessary to break impasse in negotiations held in larger groups. However, many criticise such meetings describing them as exclusive sessions and continuation of the 'green rooms'. It is disheartening that during negotiations, decisions are made among few major trading partners; and everything is kept highly secret.

Many would recall that the Cancún Ministerial collapsed as there was divergence among them on the issue of agricultural subsidies. Developing countries, especially G-20 (led by India, Brazil, and China) did not succumb to irrational trading terms of the US and the EU and the talks could not proceed further. Since then, both the camps are trying to bridge their differences in open as well as in secret negotiations.

It is a proven fact and various United Nations agencies including the United Nations Conference on Trade and Development (UNCTAD) have also reported that advantages of multilateral trading system are not being distributed evenly among all WTO members. Due to structural flaws and power politics within the multilateral trading system, most of the weaker economies are not able to tap the benefits of the trarules based trading body. This has further made the negotiations within the WTO more complicated and challenging because members find it difficult to reach consensus.

WTO negotiations are formally concluded in WTO's highest decision-making body 'Ministerial Conferences', which takes place every two years. That is why such conferences have always been the focus of attention for all stakeholders. In order to retain its neutral image, the WTO Secretariat (international bureaucrats) has to publicise the agenda of the main ministerial conferences and invite accredited journalists as well as non governmental organisations (NGOs) for these meetings, along with trade officials of member nations.

However, the collapse of trade talks in Seattle in 1999 and then in Cancún in 2003 has taught a lesson to major trading players that publicly pressurising developing countries to accept their terms and conditions never works. Public resentment as well as civil society resistance, followed by suicide of Korean farmer on issues of agricultural subsidies contributed a lot towards inconclusive talks at Cancún. On top of it, these issues were also highlighted by global media, which increased the awareness among laypersons across the world on WTO issues.

It is in this context that major trading powers have opted the route of low profile 'mini-ministerial' meetings for taking high profile decisions. Participation in such meetings is through invitation, agenda is hidden, and 'unwanted elements' such as NGOs, observers and media are prohibited. These meetings were organised in the run-up to the Doha and Cancún Ministerials and now as

Hong Kong Ministerial is approaching, the 'mini-ministerial' phenomenon has again gained momentum.

Trade ministers from Australia, Brazil, Canada, the EU, India, Japan, Kenya, Switzerland and the US met on 29 January during the annual summit of the World Economic Forum in Davos, Switzerland for a three-hour mini-ministerial meeting to discuss the issues under the Doha Round. The Swiss government, which was hosting the talks, refused to describe the short meeting as a substantive mini-ministerial. It suggested that the session only involved a 'stock-taking' of the negotiations so far and discussion of preparations and objectives for the December 2005 WTO Ministerial Conference in Hong Kong. At the meeting, Kenyan Trade Minister Mukhisa Kituyi handed out invitations for the first full length mini-ministerial to a similar group of countries. A mini-ministerial is also planned for the sidelines of the Organisation for Economic Cooperation and Development's annual ministerial gathering on 3-4 May. Although China declined the invitation to the Davos 'mini-ministerial', it has offered to host a mini-ministerial in late June / early July or in September.

Invitations for the Kenya 'mini-ministerial' (in Mambasa) were extended to 29 ministers and senior trade officials only. Originally, the meeting was supposed to focus mainly on services, non-agricultural market access, anti-dumping and other rules-related issues, as well as development. However, tensions between rich and poor countries surfaced in Kenya when grievances over farm reforms clouded talks aimed at speeding up the progress towards a new deal on global free trade. Brazil's Foreign Relations Minister Celso Amorim was critical of the meeting's agenda, and he stated at the outset that "leadership must be by agriculture because that is why the round exists." Trade Minister Mark Vaile of Australia also said that progress in agriculture should continue to "lead the round". In contrast, EU Commissioners Peter Mandelson and Mariann Fischer-Boel, as well as acting US Trade Representative Peter Allgeier, stressed the importance of a balanced deal that would include real cuts in tariffs for non-agricultural products, as well as more open services markets. Rwanda's Minister of Commerce Manasse Nshuti summed up the African position when he called for "tangible political commitment" to addressing issues of importance to developing countries. The meeting gave a political push to two market access issues, where progress was already perceptible in Geneva, but failed to make a significant contribution to the services negotiations that remain seriously behind the schedule.

An interesting scene was the convening of a 'micro-meeting' within the 'mini-ministerial'. Australia, Brazil, the EU, India and the US, which are known as 'five interested parties' (FIPs) since the launch of the July Package, reconvened in micro-meetings to discuss the future agricultural negotiations. These countries were much criticised for stitching up the agriculture annex in the July Package without taking on board the concerns of other members and coalitions. This time they did it again and kept on carrying out exclusive talks on agriculture, which is the most crucial issue for all developing countries' livelihood and food security.

> The mechanism of arranging mini-ministerial to reach consensus among a few, which is then presented to the majority as a take-it-or-leave-it package, is clearly undemocratic and in violation of the one-country-one-vote and consensus system of the WTO

However, some activists and NGO representatives managed to gather near meeting premises. They protested for bringing in pro-poor reforms in the multilateral trading system. However, the Kenyan police authorities immediately arrested the protesters.

This reveals the fact that the mechanism of arranging mini-ministerial and exclusive 'green room' meetings is fundamentally flawed. The criteria of countries selected are unknown; no written record is kept of the discussion. About 25-30 countries attempt to make decisions that affect the entire members (148 countries). The agenda is set on behalf of entire members in their absence. The use of such exclusionary meetings to reach consensus among a few, which is then presented to the majority as a take-it-or-leave-it package, is clearly undemocratic and in violation of the one-country-one-vote and consensus system of the WTO. This process violates the spirit of international cooperation and undermines democratic principles for an international institution that creates legally binding and enforceable agreements for 148 governments worldwide.

WTO agreements oblige governments to undertake serious legislative and regulatory reforms that impact domestic policies not just limited to trade. Therefore, it is sad to note that that the WTO, till date, has failed to devise a system that incorporates all of its members to build a real consensus. It does not matter what one does on substance, if the outcome is predetermined by a few.

Does it not seem that our negotiators are wasting their time holding negotiations in Geneva? As deals are arrived at when the 'chosen' few meet, other Members will have no alternative but to accept these positions and deals. These processes, therefore, are unfair and unjustified.

The holding of such unofficial mini-ministerials and 'green room' meetings should not be accepted by WTO Members. The trade ministers should follow transparent and inclusive procedures and reject the use of unofficial and exclusive 'mini-ministerial' and 'green room' meetings in the run-up to the WTO's sixth Ministerial in Hong Kong and during the Hong Kong Ministerial itself. ■

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Trade, development and poverty

Civil society in trade negotiations

CUTS Centre for International Trade, Economics & Environment (CUTS-CITEE), Jaipur, in association with Institute of Policy Studies (IPS), Colombo and SAWTEE organised the launch meeting of the project *WTO Doha Round and South Asia: Linking Civil Society with Trade Negotiations.* The meeting, supported by Novib (OXFAM Netherlands), The Hague, was held at Colombo, Sri Lanka from 9-10 March 2005.

The project was undertaken in the context that the outcome of the Doha Round will have significant implications on international trade and national development. This is more so for developing countries as international trade is increasingly linked to national development (poverty reduction) strategies. Therefore, it is important for South Asian countries to have common negotiating positions at the ongoing Doha Round of negotiations.

Given this context, the project is focussing on the five key elements of July Framework on which the Doha Round of negotiations will progress: agriculture; non-agricultural market access; development dimensions; services; and trade facilitation.

The meeting discussed these five issues and helped in cross-fertilisation of experiences and lessons learnt on international trade and national development strategies. It also discussed the possibilities of the linkage between the civil society organisations and research institutions. ■

Linkage between trade and poverty

CUTS-CITEE organised the launch meeting of its project entitled *Linkages between Trade, Development and Poverty Reduction* on 18-19 March 2005, which is supported by the Department for International Development (DFID), the United Kingsom and the Ministry of Foreign Affairs, The Netherlands.

The project would be implemented over the next four years in 16 countries across Asia, Africa and Europe. It aims to discover more about how trade policies affect the poor. In addition, it aims to use these findings to advocate for pro-poor trade policies in these regions and at the international level. ■

Govt urged to consult stakeholders

VARIOUS civil society and farmers' organisations and independent experts in Pakistan expressed their fears that developed nations would impose decisions on smaller countries at the mini-ministerial conference that was held in Kenya from 2 March.

They urged the government of Pakistan to consult all stakeholders prior to taking any position. The concern was voiced by representatives of the civil society and farmers group network, WTO Watch Group and Sustainable Agriculture Action Group (SAAG) at a press conferee held at Rawalpindi-Islamabad Press Club camp office on 27 February. The organisers in the press conference said that the process of mini-ministerial conference has been initiated by rich countries in order to impose their decisions on developing countries.

They argued that after reducing the number of developing countries in the mini-ministerial conferences, through the divide and rule and the carrot and stick policies, the rich countries including Japan, the European Union and the United States, impose their decisions on the poor countries.

The organisers also said that Pakistan's agricultural sector is facing great danger because the government is not sharing its stand with all stakeholders regarding various WTO issues.

Sustainable Development Policy Institute (SDPI), Islamabad is a member of SAAG. ■

Focus group discussion on the draft competition report

SAWTEE organised a focus group discussion on 15 April 2005 in Kathmandu to obtain views and comments on its draft report on "The Status of Competition in Nepal". The report, as part of an effort to raise awareness among the concerned stakeholders on competition issues, identifies the status of competition in different sectors of the Nepalese economy. The study has covered the analysis of the social and economic policies affecting competition, the nature of markets, sectoral policies and the incidence of anti-competitive practices in Nepal.

The focus group discussion held with key stakeholders helped SAWTEE obtain original and comprehensive inputs from each participant. These inputs would be incorporated in the final report to ensure the validity of the information and enhance the quality of the report. The 13 member group, consisted of lawyers, competition experts, private sector representatives, media and government officials. The final report will be published after revisions have taken place and changes incorporated appropriately.

The report is also a part of the Competition Advocacy and Education Project (CAEP), which aims to inculcate a competition culture in the economy, create an atmosphere for the formulation and enactment of competition friendly policies and legislation, ensure participation of stakeholders in the formulation and implementation of policies, and build capacity of stakeholders to act as a watchdog to prevent anti-competitive practices. The aims are to be fulfilled through research, publications, capacity building and the creation of networks and pressure groups.

CAEP, which begun from February 2004, is a three-year project being supported by Department for International Development (DFID), Kathmandu. ■

Two projects launched to enable Nepal to benefit from the WTO

SAWTEE has recently launched two projects that would be implemented in Nepal.

Reform and Capacity Building Agenda in the Post Accession Era

"Reform and Capacity Building Agenda in the Post Accession Era (RECAB)" focuses on the policy and legal reform process and the capacity building of the stakeholders. Activities under RECAB include research, publications, bio-monthly forums etc. Under the project, an extensive research would be conducted to analyse the major commitments made by Nepal and identify the flexibilities contained in various World Trade Organisation (WTO) agreements. The research would then propose the modalities by which Nepal's interest could be protected by utilising those flexibilities while reforming the trade policy regime and preparing/amending laws and rules. The project, supported by ActionAid Nepal, Kathmandu, started from Sptember 2004 and will be completed in August 2007.

Enhancing Private Sector Competitiveness in the WTO Era

"Enhancing Private Sector Competitiveness in the WTO Era (ECOMP)" focuses on building the capacity of Nepalese entrepreneurs, small and medium enterprises (SMEs) in particular, to help them take advantage from WTO membership. Activities under the project include policy research, sensitisation and capacity building, and policy advocacy. Under the project, a training package would be developed to increase the awareness of the private sector entrepreneurs, especially SMEs, on WTO rules and regulations that will affect their business. The project, supported by The Asia Foundation, Kathmandu, started from February 2005 and will be completed in January 2006. ■

One year after WTO membership

AS a part of "Reform and Capacity Building in the WTO Era (RECAB)" Project of SAWTEE and ActionAid International Nepal, the Sixteenth Forum on Globalisation and WTO was organised on 22 April in Kathmandu on "One Year After Nepal's WTO Membership: Where Do We Stand?". Nepal had become a member of the World Trade Organisation (WTO) on 23 April 2004.

During the forum, Mr Prachanda Man Shrestha, Joint Secretary, Ministry of Industry, Commerce and Supplies presented a paper briefing the participants about the progress the Nepalese government has made in the one year period of Nepal's membership in the WTO. Commenting on his paper, participants from the private sector and civil society suggested the government to follow an inclusive approach in the process of fulfilling its commitments made at the WTO. They recommended the government to build and institutionalise the national strategic alliance involving private sector, civil society organisations, and academic institutions.

The forum was attended by more than 80 participants from the concerned ministries and departments, lawyer associations, private sector, academia, civil society and media. ■

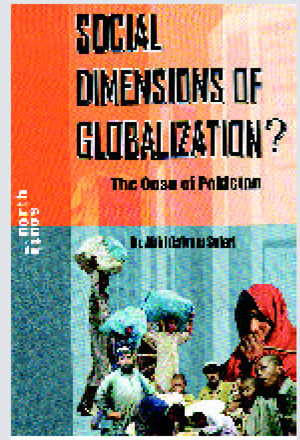
Community-based programmes in India

DEVELOPMENT Research and Action Group (DRAG), New Delhi has been working among the Gujjars (mainly cattle herders) of Manger village in Haryana. DRAG is encouraging them to apply traditional farming techniques (organic farming) and use local varieties of *jowar* and *bajra* as far as possible.

A farm belonging to DRAG is a demonstration unit and is situated in the heart of one of the two major settlements where the 2,000 Gujjar families reside. While in January and February 2005, 60-65 farmers visited the farm, in March, 70 farmers visited the farm. DRAG discussed the World Trade Organisation (WTO)'s Agreement on Agriculture (AoA) with the farmers, whose attention was drawn as to how AoA may affect their farm and livelihood.

Similarly, DRAG has also been active in sensitising the farming communities about the implications of intellectual property regime (IPR) on thieir livelihood. The IPR regime within the WTO has also come up for discussion during the course of the implementation of DRAG's Reproductive and Child Health (RCH) Project at Urban Poverty Eradication Centre in West Delhi. The family planning field staff of DRAG came across several cases of HIV/AIDS, often unattended for want of medicines for this deadly disease. The shortage will be exacerbated by Transnational Corporations (TNCs) using the patent regime of Trade Related Aspects of Intellectual Property Rights (TRIPS), if they have their way. During March, DRAG's field staff has held five meetings in different localities of Mohan Garden, drawing attention to the provision in TRIPS that is sought to be used by TNCs to use patents to promote their drugs with enormous negative consequences for the national/indigenous drug industry. ■

Social Dimensions of Globalisation



Title: Social Dimensions of Globalisation? The Case of Pakistan
Publisher: NCCR North-South Development Studies Group and JDHR
Author: Dr Abid Qaiyum Suleri

IN today's world, globalisation is a reality; countries cannot remain aloof in a globalised world. However, even while being a part of globalisation, benefits do not come automatically. Besides, there are so many anti-social dimensions of globalisation that often harm the poor. The challenge would, therefore, be to build safety nets for them.

This book is a compilation of selected articles and research papers of Dr Abid Qaiyum Suleri, who is currently working with Sustainable Development Policy Institute (SDPI), Pakistan. The articles included were published in *The News* and *The Financial Post* (daily newspapers of Pakistan), and *Himal South Asia* (a magazine published from Nepal). Two research papers on "WTO: Havana to Cancún" and "Altering the Course of Global Trade" supplement the information and arguments put forth in the articles.

The author, highlighting different cases in Pakistan, has argued that despite its anti-social dimensions, globalisation is manageable. However, there are roles that each actor and agency must play with utmost priority to protect the livelihood of the poor, vulnerable and marginalised communities.

The book is meant to enable readers to understand the implications of globalisation. Many articles in the book highlight the ways to manage the anti-social dimensions, particularly while dealing with farmers' rights and agricultural issues. ■

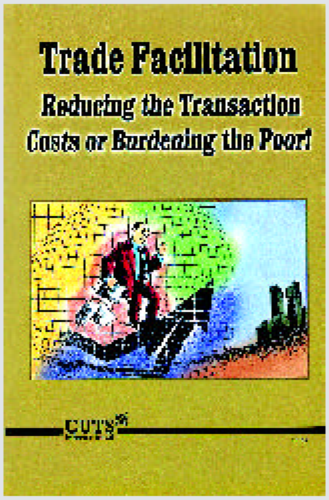
Activities during Global Week of Action on Trade

SAWTEE, along with United Nations Food and Agriculture Organisation (FAO) Nepal, organised the interaction programme titled "Global Week of Action: Nepalese Agriculture in the WTO Era" on 15 April 2005 in Kathmandu. The programme was organised as part of civil society campaign, which was celebrated globally from 10-16 April – under the loose banner of – Global Week of Action on Trade.

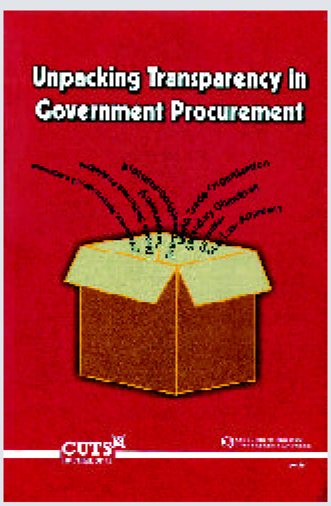
Participants in the programme discussed that if trade liberalisation promoted by the World Trade Organisation (WTO) is meant to enable countries to capture the gains of integration into the global economy, trade justice should be a major focus at all levels, particularly in the context of least developed countries like Nepal. The participants emphasised that Nepal's membership in the WTO has appeared as a serious concern at the policy as well as grassroots level because the issue of trade justice has not been considered important within the multilateral framework for agricultural trade liberalisation, among others. Expressing their grievances over the unjust practices within the WTO such as unfair subsidy regime and undue tariff and non-tariff barriers, participants discussed the numerous challenges that Nepal faces in terms of promoting its agricultural sector in the WTO era. In the context of Nepal's commitments at the WTO, the participants underscored the need to utilise the flexibilities contained in the various WTO agreements to mitigate the challenges facing the agricultural sector.

As a part of the campaign under Global Week of Action, a Cartoon Exhibition was also organised by National Alliance for Food Security Nepal (NAFOS), a network of more than 20 civil society organisations, including SAWTEE. Fifteen cartoons exposing various unjust trade practices within the WTO system drew the attention of participations towards making efforts to correct such practices.

A book titled *Implications of the WTO Membership on Nepalese Agriculture,* jointly published by FAO Nepal, United Nations Development Programme (UNDP) and Ministry of Agriculture and Cooperatives, was also released during the programme. The book covers a wide range of issues concerning WTO agreements and analyses their implications on the agricultural sector of Nepal. The book also suggests the policy and legal measures to be adopted to protect and promote the Nepalese agricultural sector. The book was distributed to all participants who attended the programme. ■



Title: Trade Facilitation: Reducing the Transaction Costs or Burdening the Poor!
Publisher: CUTS-CITEE
Editor: Pradeep Mehta



Title: Unpacking Transparency in Government Procurement
Publisher: CUTS-CITEE
Editor: Pradeep Mehta

International Working Group on the Doha Agenda

As a part of CUTS' programme titled *International Working Group on the Doha Agenda (IWOGDA)*, two books on trade facilitation and transparency in government procurement (TGP) have recently been published.

Trade Facilitation

TRADE facilitation was one of the four issues included in the World Trade Organisation (WTO) at the Singapore Ministerial in 1996. The argument was that an agreement on trade facilitation would bring significant gains to world trade by reducing transaction costs. The July Package is a significant step in the multilateral trading regime and the agreement on modalities for negotiations on various issues, including trade facilitation, is a welcome step. According to the July Package, the scope of negotiations on trade facilitation will be of 'limited nature'. The negotiations shall aim to clarify and improve the relevant aspects of Articles V, VIII and X of General Agreement on Tariffs and Trade (GATT). Though the decision does not require countries to undertake investments beyond their means, the biggest apprehension of developing countries and least developed countries (LDCs) is the huge recurring costs they would have to incur. Hence, the focus of the decision is on providing technical assistance to developing countries and LDCs. It is important that in the actual negotiations, these groups of countries ensure that providing financial and technical assistance is made binding. One salient feature of the modalities on trade facilitation is the linking together of imposing trade facilitation measures with the financial capability of developing countries and LDCs. One major impact of negotiations on trade facilitation will be that it will push many developing countries to unleash domestic reforms in the areas of trade facilitation. This book brings together the different viewpoints and concerns on the issue of definition of trade facilitation; Articles V, VIII and X; dispute settlement; technical assistance; and capacity building. It also incorporates five case studies of developing countries to analyse whether trade facilitation measures have reduced transaction costs. ■

Transparency in Government Procurement

TRANSPARENCY in Government Procurement (TGP) was also one of the four issues included in the WTO at the Singapore Ministerial. Government procurement (GP) covers purchases of goods and services made by the national, provincial or local governments and its various agencies out of their budgetary resources. GP can also be financed from aid received through bilateral and / or multilateral aid agencies. The share of GP in national public finances is significant; in developing countries, it is estimated to account for 9-20 percent of gross domestic product. CUTS-CITEE embarked on a research project on TGP issues, to address an urgent need to promote understanding and awareness particularly in developing countries, not only among the civil society but also among policymakers and trade negotiators. A group of experts was brought together to probe a number of issues surrounding TGP in Jaipur in June 2004. During the discussions, it became apparent that there were more fundamental issues relating to GP in the context of the WTO than the issue of transparency and a fresh look at several aspects of GP was warranted. The outcome has been an exchange of GP practices among the major developing countries. Perspectives from Brazil, China, Equador, Malaysia and South Africa provide a wider perspective to South Asian academicians, government officials and policymakers. ■

Launched in December 1994 at Nagarkot, Nepal by a consortium of South Asian NGOs, South Asia Watch on Trade, Economics & Environment (SAWTEE) is a regional network that operates through its secretariat in Kathmandu and member institutions from five South Asian countries, namely Bangladesh, India, Nepal, Pakistan and Sri Lanka. Registered in Kathmandu in 1999, the overall objective of SAWTEE is to build the capacity of concerned stakeholders in South Asia in the context of liberalisation and globalisation.